Global Real Estate Conference: Insights

The State of the European Public Real Estate Market

Presenters: Dominique Moerenhout, CEO, EPRA Belgium
Rolf Buch, CEO, Vonovia SE Germany
Simon Carter, CEO British Land United Kingdom
Jean-Marie Tritant, Chief Executive Officer and Chairman of the Management Board, URW France
Régis Chemouny, EMA Head of Real Estate, KPMG France

Regis Chemouny (RC):

My name is Regis Chemouny. I'm heading the EMA Real Estate practice. I'm really delighted to welcome for our KPMG Global Real Estate conference Dominique Moerenhout, CEO at EPRA and three prominent CEOs of our industry, namely Rolf Buch, CEO at Vonovia, Simon Carter, CEO at British Land and Jean-Marie Tritant, CEO at Unibail-Rodamco-Westfield. This yearly conference brings together partners from around the globe and offers a platform to discuss challenges of our real estate industry. This year, and as you can see, this is a digital conference. We were in Tokyo or Los Angeles the two previous years. Before starting the discussion, Dominique, could you provide us with a brief overview of a listed EMA market?

Dominique Moerenhout (DM):

Yes. Thank you very much, Regis, and of course thank you very much to KPMG to give I would say the voice once again to the European listed real estate sector today. So it's a great pleasure for me taking part in this discussion, and of course I think as you said, Regis, three prominent listed real estate companies from Europe, CEOs around the table. For the ones who do not know those companies, today you have around the table around 50 billion euros of market cap. So we really have three very prominent companies here.

So what I would like to do here before leaving the floor to Regis is maybe to give a very short background about the global listed real estate sector. So looking at it today, the global listed real estate sector represents $3.6 trillion of full market cap with Europe standing at $560 billion, so roughly I would say 16 percent of the total market cap in the world. As you probably know, investing into the European listed real estate sector offers both institutional and retail investors very wide diversification by sector but also by geography and even very more importantly a very strong long-term performance to its shareholders.

So we at EPRA, so we commissioned a very interesting study two years ago conducted by CEM Benchmarking which really concentrates analysis on the (Inaudible) industry, and this study revealed that the listed real estate sector outperforms a listed real estate but also private equity as an asset class within the European pension funds. But for you, as you heard by the numbers, Europe represents 16 percent, so there is still plenty of growth opportunities for all sectors, but we do expect to see more IPOs after the crisis. Only in March 2021, so we had a closing one billion euros IPO by CTP which is a Czech logistics company. This represents one of the largest European IPOs in the last year.

We will hear from the panelists today, so it goes without saying that 2020 has been a tough year for the listed real estate sector, but for the real estate sector at large. Last year on the listed side, only the residential and the logistics sectors delivered positive returns year to date, but we've already started to see some recovery from the other sectors since November, and our speakers today will have plenty of opportunity to give you more details about it.

However, I would say despite those difficult times, the European listed property companies have shown tremendous solidarity and generosity in supporting during the crisis not only its tenants but also local communities and medical staff which means that the S part of ESG has undeniably prevailed during the COVID-19 crisis while the E part of ESG, so the so crucial environmental challenges we all know has been at the heart of most of the (Inaudible) over recent years and remains definitely a top priority for sectors.

As you will hear and as you may have read already in the press, our members are very much involved in a number of carbon reduction initiatives and are committed to carbon recapture plans in order to make sure that all buildings with good bones are also repurposed. While 2021 will undoubtedly will still be a year of transition, the EPRA commissioned Oxford Economics report foresees a return to some precrisis level at some point in 2022 compared to eight years following the global financial crisis. So we can see that we are today in a much better position than where the sector was after the global financial crisis, and investor behavior confirms this.

We saw last year that as soon as the COVID crisis kicked off, investors took a totally risk-off approach, but then around November last year they started moving back to a more risk-on approach. So there is much that is currently mispriced in the listed market, but the appetite is there. So I don't want to make it very long. I want to leave you on this positive note and now leave you, Regis, the floor to discuss many interesting subject matters with our panelists. Regis, the floor is yours. Thank you.

RC:

Thanks, Dominique. Thanks for all your support. Much appreciated. So as you know, one year ago most countries faced a COVID crisis, and that is considered that the path for the next normal will be a bumpy one and that the economic implications will be severe. So maybe first question for all panelists, how has COVID impacted your strategy for the next years? Could you describe main measures taken to adapt to this new paradigm?

Jean-Marie Tritant (JMT):

Thank you, Dominique, for the introduction with a lot of hope as well for the future of our industry. Maybe a few words about the way this crisis has impacted us, especially when I talk about (Inaudible Portion). The purpose of this company is Reinvent Being Together, and after a year of social distancing, I think that this focus is even more related(?) than what we were expecting it to be when we worked on it a few years ago. Creating social links, being able to keep connection between the people whether through Zoom or like we do today, so we know by delivering new type of services in our assets. How can we innovate just to adapt and adjust to the situation is really what we have been doing for the last now more than 13 months.

So I think that the first impact of this crisis has been on the capacity of our organizations to adjust to the new normal, and they don't know what the new normal means, but (Laughs) for the next few months we have still part of our assets in Europe that are closed. We are reopening in the U.S. progressively with restrictions that are eased. In the U.K. we reopen next week. So we readjust. But what I'm saying is really the ability to adjust to the new environment and the level of innovation that we have been able to (Inaudible) very quickly over the last few months to make sure that our retailers keep operating even with a lot of restrictions by developing curbside delivery, creating open spaces that are outdoor spaces.

That gives the ability to still do in some of the countries where we're able to do in restaurants outdoor dining, being able to create delivery and access to our food courts to the Uber Eats and deliverers alike in the different countries. So really making sure that we can continue to develop or to sustain the business of our retailers.

The other thing that (Inaudible) taking care of here was the communities that we serve. I think that (Inaudible), so we've been doing a lot for the communities that we serve. Not only are we generous, not only our office tenants but also our customers, end customers (Inaudible) and access to vaccination centers (Inaudible) vaccination centers, but just so you know community centers, and we've been trying to have the local governments to face the changes of this pandemic crisis.

In the long run, the impact of this crisis I think is I would say twofold. The first one is we know that physical retail is not dead, because we know that what we saw over the last few months is that each time we've been able to reopen the stores, and I'm not the only one to say it, and in (Inaudible) are seeing it. People are coming back and they're buying in stores. When we see that they buy for the moment, they buy more. The spending basket is higher than it was before the crisis. I don't say it will last, but over the next year we expect that people when they have the ability to buy online, they didn't buy everything online, and they are coming back to the stores, and then they're buying in the stores. So that's really something that is important.

People are still fighting for the experience and the contact and being able to get the advice of a sales associate. They like experiencing the store and they like to do that kind of thing with their friends, with their family. So shopping and destination shopping has a social link, creating social links in between the people is something that is very important, coming back to this Reinvent Being Together purpose of the company.

The other aspect of it is that one thing is for sure is that now people are using even more than before the digital tools, and you need to be omnichannel. There is no way that you will be successful in the future if you don't combine the offline with the online. It's both together that will work. We don't see any online players unless they sell (Inaudible) products, but if you sell goods, then you need an online and offline business together. You should be able to combine this so the omnichannel work is even more important after COVID than pre COVID. So that's really the two things that we see, social links, physical experiences, (Inaudible Portion) the online and digital tools.

Simon Carter (SC):

Thank you very much for having me, and actually Jean-Marie, as he was speaking there, prompted a thought because like you (Inaudible) going back to your purpose, it's always a good time to do it in a crisis, and I guess our response to this crisis has very much followed our purpose. Our purpose is Places People Prefer. So today for those of the audience that don't know, British Land is in two markets, London offices and retail throughout the U.K. This crisis has really increased our conviction that on the office side of our business it's about delivering the absolute best space.

What we're seeing in the U.K. today is a real flight to quality. No one's quite sure how often they will be in the office. It's likely to be more working from home, but the one clear message that's come through is that people value the office most for the collaboration, developing company culture, training staff, interacting with customers, and they want to do that in the most central locations and the best possible space. So as a business, we have our office space campuses, three of them across London, and they really play to that trend, and so our strategy is really to make the most of those.

People want that real estate where the buildings are very high quality. They're sustainable, great public realm. Particularly after a pandemic, people will want to get out and about, see green space, and they're going to want great amenity. That means really good retail F&B options. So our strategy is to really continue to invest in our campuses, and we'll do that by development and probably recycle capital more rapidly than we would have done in the past, to my point around delivering the best space, and we've got a development pipeline which I think will offer very good opportunities for us going forward.

One of the consequences we've seen of this crisis is the supply of new space has been pushed back, and because that's pushed back, that creates an opportunity for us to develop into. Then as is always the case, it's really important to look at new growth areas across the office business and, just as we've seen technology being an important driver of growth in the London office market, we think there could be quite an interesting opportunity in life sciences, clearly one of the sectors that's had a lot of focus during COVID and expect it to grow pretty rapidly in the U.K. as it has done in the U.S., and obviously the U.K. along with a number of other European countries played a big part in finding the vaccine solution. So we think that's an important area for us.

Then the other thing where we've gained more conviction during COVID I think is in retail, the affordability of space. When we speak to retailers, the biggest issue in the U.K. on their minds is the affordability of space, and so we're working to bring down rents, get into sustainable levels, make sure we're continuing to bring in the customers that are going to trade successfully. So in a crisis, you have to be very pragmatic, and that's the approach we've adopted across the business. With results back in November, we talked about the challenges in retail and addressing them and, as I've talked about, rebasing rents is one way to do that, but actually as the months have gone on and looking ahead, we're beginning to see an opportunity in retail.

Values have moved a long way in the U.K., and we do think for the out-of-town formats, so this is retail parks, rents are getting to the levels where they're affordable for the retailers. We're beginning to see those rents stabilize and, where the values are, we think we can get some pretty interesting double-digit returns for our shareholders. So we're looking to selectively deploy capital in that space and, at the same time, thinking broadly. It's clear we're going to have less retail as we look ahead.

So really important to look at alternative use, whether that be logistics, residential or offices. So I think it's a time for thinking broadly about the future of retail. There will be less of it as we look ahead. I guess the other areas of conviction is around leverage. We went into this crisis with quite low leverage, and crises are just incredibly hard to predict. I don't think anyone could have predicted COVID. So we've increased our conviction around maintaining low leverage in our group for what is an unknown future path of COVID and the recovery.

Rolf Buch (RB):

So actually in our case, the strategy has not changed. The strategy was not actually impacted. It was only confirmed. Before COVID-19, we were focused on regulated markets. After COVID-19, we are focused on regulated markets for good reasons because regulated markets normally come along with a very stable and strong welfare system which of course helps our tenants to pay the rents. So COVID-19, actually it's very difficult to see in our figures that there was a COVID-19 in the year 2020.

But giving a bigger picture, what we have seen is that governments are able in a crisis to make drastic measures and to take drastic actions. Actually they have taken — and I am completely okay with it and I support it — but they have taken a lot of our individual rights away from us, and there are crises in front of us which are much bigger than COVID-19, for example environment crisis, and that's why the learning, what I'm taking out of COVID-19 is that we have to prepare ourself to give answers to the big questions before politicians force us to do so. I think that's why COVID-19 actually helped us to even push further in our responsibility (Audio Glitch) our attention.

RC:

How COVID might impact future office and retail leases, for example, more flexible leases in terms of duration and turnover-based leases?

JMT:

I think that in the retail environment, flexibility is definitely something that is on the table and we've been discussing especially when you talk to the new players that are mainly digital (Inaudible) vertical brands that used to get that flexibility online, and they want to be able to fire up their business very quickly and want to be able to get that flexibility. So that's part of the discussion. When it comes to the turnover rent, this is discussion that was started before the crisis that has been obviously somehow advised(?) by the crisis or linked to how do we share the burden in this period of time whether we were closed or operating under high level of frustrations. How do we share the burden?

So that's where the execution of (Inaudible) the value of rent was the most obvious link to how do we adjust to the crisis. But the pure turnover rent is not the right answer to the question, first because when you start to do that, actually go for pure turnover rent, you need to talk about then how your retailers are managing the assortment and the inventory into the stores. How do they make a choice when it comes to fashion, for example, on the designers and the (Inaudible)? So we can associate it to the success of our locations for the turnover rent, but it cannot be pure turnover rent, because then we are associated to the entire business of the retailer itself, and then we need to have some controls over what they're doing too.

So I'm happy to give flexibility and to give some higher turnover rent, but then so part of the discussion is around the way they do the inventory. Discussions that we (Inaudible), okay, I'm happy to go for turnover rent at a minimum (Inaudible) rent for the recovery phase and the ramp-up phase, but you need to take some commitment regarding the number of associates that you will put in the store. How many inventory will you have in the store such as we're sure that you are optimizing your ability to sell in your store such as we can optimize the sales and then the rent?

In fact, today we need to have kind of a balanced discussion between the tenants and the landlords, and we need to (Inaudible) the type of activities in which they are. So it's different to talk to a car maker that is opening stores in a mall than with a restaurant especially in these times. I would love to have more turnover rent when it comes to Tesla, for example, (Laughs) because when they sell one car, it's a $100,000 car or 100,000 euros car. When you talk to a restaurant, that's obviously different. So we adapt the level upfront minimum rent and turnover rent to the type of activities that we are facing. So pure variable rent is not the only concept to the situation.

RC:

Thank you, Jean-Marie. Bearing in mind the new ways of working and traveling, we can anticipate a profound commercial transformation. Could you speak about the future of shops and shopping centers? Will it be in business districts or in the outskirts of cities or elsewhere, and how have retailers adapted to this new context?

SC:

I guess one observation at the outset is we're going to see very limited development over the next four or five years. So the assets we've got today are probably the assets we'll have in four or five years' time. They'll be improved, but we'll also have less shops. So I think from an investor perspective into the retail market, you're going to want to be in the top half and ideally the top quarter or so. I see the best shopping centers in the strongest towns will survive and ultimately thrive. We think as a business the out-of-town is likely to have better fundamentals in the U.K. in the short to medium term driven by that point around affordability that I made.

A lot of our retailers here are finding that it's their preferred format. They're moving out of in-town schemes into out-of-town and edge-of-town locations. The boxes are bigger, more efficient for them. Rents are more affordable, and then there's also the fact that they're better for click-and-collect, return, ship-from-store models, but equally I don't think that in-town shopping centers is a market that longer term won't perform. It's just going to be more selective, and it's going to need to be the best schemes in the best towns, and we as landlords will have to continue to invest in our assets to make sure they remain absolutely in that top quartile position. So really my answer I suppose is it should be in the top quartile in out-of-town or in-town.

JMT:

(Inaudible) we say. The motto of Unibail-Rodamco-Westfield has always been being focused on the destination shopping centers. Whether they are in-town or in the suburb(?) locations, these assets would be (Inaudible), and I (Inaudible) expected them to really benefit from the pent-up demand that has been created by this crisis and the fact that people have had to stay at home for so long that they would be able to recover.

So when we look at location of (Inaudible), the thing that, again, accessibility would be key, and accessibility doesn't mean the same thing in Europe or in the U.S. Road accessibility will remain very important in the U.S. while transportation networks accessibility will remain important in Europe and (Inaudible) Europe. So where you're really connected to a wealthy(?) (Inaudible) areas with a lot of density in terms of the number of inhabitants, then these assets will thrive.

Where things may change or (Inaudible) in terms of (Inaudible) is really where you see that some places you will need more misuse project than what you had before. So you will try to invent new uses in your assets where you had only I would say stores or shopping, you will have then healthcare centers, offices, residential, others, and you will try to start a more diverse offer within the same area which I think is one of the developments that we see or saw in the U.S. as well as in Europe with the densification. I still believe that the cities will be where the people will live in the coming 50 years.

Maybe we have an issue where we're talking about sustainability. We cannot extend the cities forever, so densification is one of the responses, being less specialized where you have the business district, the shopping district and then the housing district. This will be much more diverse and mixed in the future. This is what I see people the people, they will want to commute less, so they will want to live and work and shop where they are, and maybe there will be less traveling I would say in the large cities, leaving more restricted areas, but I still believe the connection and where people are living and where the density is, is where the shopping and the stores and the shopping industry will thrive over time.

RC:

Thanks, Jean-Marie. You mentioned the omnichannel model, but as you know it is proved that ecommerce does not replace in-store sales, and personally I've had the opportunity to visit many of your shopping centers in Europe and in the U.S., and I do believe that physical stores are still a competitive argument. What is your view on the future of shopping centers in five years?

JMT:

We come back to one of our strong convictions when it comes to the retail industry; that is, that we see three main sectors developing in the retail industry, and that has been the case for the last ten years. The current crisis has accelerated that trend. It's really online definitely, their share of ecommerce will be closer to 33 percent or a third of the total retail of goods in the future than ten percent or 16 percent or 20 percent. Then you have everything that is proximity and convenience, and then you have destination shopping where it's not only about having shopping experiences anymore.

This is where you socialize, where you have culture. You have access to the culture. You have entertainment. You having dining and you also have access to a new type of offers, like I way saying previously, like health and wellness centers, medical centers, medical facilities, co-working spaces, offices, housing. So this is where we see the development. But what we see as well is that online and offline, as I was saying previously, are going together, and they're (Inaudible) presentation (Inaudible) of the four-year (Inaudible). What is the strategy? The strategy is stores and online together.

H&M? What are they talking about? They are talking about global sales. So now it's all together. This is one ecosystem because you have only one customer, and that customer wants to be able to buy online or buy offline and have a seamless experience globally, and you need to be part of this customer journey that is not only purely offline or purely online. Now the customers, they are using all the tools that are in their hands to have access to what they want to buy or the type of experience that they want to have, and so the way they can share these experiences. So all the social networks are also confident of this development of the shopping centers in the future.

I think that retail would be much more connected now after COVID than what it was before, and just the COVID crisis has just accelerated that trend where we know now with the retailers that somehow we need to more partners than when we used to be. Why I'm saying this is linked to the experience that we had in our centers where when we had to close our centers, we offered the curbside delivery which is customers of our retailers browsing online, buying online and coming to the store to pick up their stuff. But they didn't have access to the store, so we did it on the parking through the curbside delivery, and it solves one issue for the retailers that is the last-mile delivery cost which is very, very impactful on the P&L, and that makes their online business not profitable.

So I think that the evolution of the shopping centers in the future is being part of the solution for the retailers when it comes to the last-mile delivery, and this is good for us. This is a drive-to-store strategy. It's getting the people. This is why it's so important to be accessible whether with a transportation network or road accesses, but being connected to the transportation networks is something that is very important to help the retailers developing their sites global, and the discussion of H&M doesn't talk about sales offline and online. They talk only about global sales, and that's the new normal I would say, the new way of talking about retail, and we need to be part of it.

RC:

Thanks, Jean-Marie. Simon, maybe if you will, talk about flex office. As you know, after several months of social distancing, we understand that flex office has reinforced social inequalities between cities, people and generations, and for sure people are now impassioned to strike a balance between their private and professional life. We can also consider that some cities like London, Paris, Hong Kong and New York City remain fairly resident and continue to attract premium prices. What is your view on the future demand, for example, for flex space versus traditional space? Maybe, if you will, talk about London after the Brexit.

SC:

We're going to see more working from home. Flexibility was a trend that was well underway before COVID. COVID has accelerated it. I think today our base case is probably people will tend to work more from home at the bookends of the week, Monday and Friday. They will be in the office in the middle of the week, and that's because when we're speaking to our customers, the key values that they see in the office are about getting their people together so they can build that culture and have the collaboration that I spoke about earlier.

So we're going to see a trend like that. It'll be interesting to see how it plays out. I think from the office market perspective, if there has been a silver lining to this crisis perhaps dragging on more, it's probably seeing that there's been more of a conviction amongst our office customers that they want to return to the office more than perhaps they would have in the initial stages of COVID. Working from home probably worked a lot better than people had originally thought it might. The technology held up well, but as the crisis dragged on, people have missed that human interaction.

I know in our own business it's become quite pressing. Our team are desperate to get back into the office, and we're looking at opening it up next week, and I'm sure we'll have lots of people back at that point. But there is this trend of flexibility not just in terms of how people work but the type of leases they see. That's been in the London office market for a while. It's about five percent of the market. Probably will grow to about ten percent, but I think what's quite interesting is that when we're leasing new space in our development program — the development program is just completed — we've leased that for an average length of 15 years term certain.

When we look forward in the new development program, the conversations we're having around pre-lets are of a similar duration. So when people make these office moves, and they're normally consolidating new headquarters office, it's a big commitment for those businesses, and so they want to take space for a decent duration so they get the certainty as well. So I think flexibility is a theme that's here to stay, but you will still get customers taking traditional long leases and alongside that having shorter, more flexible workspace for smaller businesses, for overflow space for bigger businesses.

Then when it comes to Brexit, I guess for us we've become relatively comfortable that the impact of Brexit is probably less than some had initially feared. It will impact financial services in a way, but the reality is financial services has not been the engine of growth in the London office market. For the last ten years after the GFC, financial services, actually many of those businesses shrunk. They were near-shoring, offshoring of staff, and what we saw was that other sectors came into the London market, in particular technology.

Technology grew very, very strongly. We think tech will be an engine of growth going forward and, as I alluded to, we think life sciences will be pretty interesting. So although one part might face some challenges in terms of office occupation, there will be growth coming elsewhere. We've seen London reinvent itself over and over again over years, and people have done badly betting against it.

RC:

Thanks, Simon. Maybe a brief question, Rolf. How do you explain that in many countries like France or other EMA countries we don't have significant REITs dedicated to the housing market? How can you explain it?

RB:

It's actually similar. So you have a lot of countries there is a REITs market which there's a lot of countries. There's the German-speaking countries which is (Inaudible). In France actually you have a market which is called social housing market, HLMs, which is actually different form of organization. So we used in Germany to have the system until the year '89, and then it was abolished and was changed to a normal or later listed sector. I think France has a few ways to go, but this will be the future of the housing sector from my point of view on (Inaudible), but we will see.

RC:

Let's speak about sustainability. Sustainability sounds crucial initially for millennials but now for the Gen Z but also for all the generations and investors as well. Could you please detail your ESG philosophy?

RB:

So I think ESG is enormously important for our sector. One third of CO2 emissions are coming from buildings, and the climate change will not be stopped if the building sector is not contributing and delivering its targets, and it's difficult to achieve the targets, and so we have to work much harder there. So what we know as Vonovia, as you know, we as Vonovia, we have started those paths(?) because we considered a few years ago ESG was probably a nice-to-have. Only today in the capital market it's a must-have.

We consider it now as a competitive advantage because you will not exist in the long run if you're not able to get your building CO2-neutral or climate-neutral, and the ability to know what you have to do and to develop these buildings to CO2 neutrality, it will be an enormous competitive advantage. That's why I'm looking forward, and this will also probably lead to the fact that the market will be probably ten or 20 or 30 years from now much more (Inaudible) than it is today because for the big players, we will be able to solve the issues. Small players, for them it will be very tough.

JMT:

I think for Unibail-Rodamco-Westfield we started the journey in 2007, and then somehow we raised the bar in terms of ambition with our CSR strategy when we launched the Better Places 2030 strategy just right after the Paris Agreement where we are reducing our carbon footprint by 50 percent in 2030 compared to 2015 levels and for all scopes, so scope one, two and three, and that's really something which our teams have been working very hard and are still working.

We see it as a trigger for innovation and transformation of our organization and the way we think and the way we are developing our business. So it's something that is creating a lot of excitement around the teams. This is something around which they rally, and then you can really create a strong level of commitment from the entire organization with these objectives.

The other very important aspect of Better Places 2030 is what we call Better Communities. So what is our impact on the communities that we serve? So talking about the communities of our colleagues, and we just launched a few weeks ago a BU, (Inaudible), which is a strong charter of how do we want to develop diversity, inclusion and gender parity in our organization across our geographies. That is a sure way to transform our organization and being more attuned with the evolution of the societies and the communities that we serve.

So just we get (Inaudible) close to what are the trends and what are the things that we need to provide to our customers, to our stakeholders, and that's part of this Reinvent Being Together, the purpose of the company. So that's a key component of our ability of our business in the future.

RC:

Simon, your view on ESG?

SC:

You probably won't be surprised to hear very aligned to Rolf and Jean-Marie. From our perspective, absolutely the right thing to do as a business but also can be a really important part of our competitive edge, to Rolf's point. I think businesses such as ours are able to deliver the type of sustainable space that businesses are going to want in the future.

We've been very struck by how it's accelerated in the last 12 to 18 months. Twelve to 18 months ago, we rarely had a request for a net zero building. Now every request we get for a new headquarters building, the first line is net zero. Some of those customers aren't quite sure what they want, but they want a net zero building, and so it's our job to deliver that, and we can drive commercial advantage, whether that's higher rents or faster leasing. So we're very attuned to it and focused on it.

I think, to the point that both Jean-Marie and Dominique made in his intro around the S, we just mustn't forget the S. As real estate businesses, we are long-term investors. Some of the assets in our portfolio we've owned for 30, 40 years. So we're a really important part of those communities, and actually we see it again as a competitive edge because if we get to a position where our customers are integrated and develop relationships with the local communities, they're more likely to stay. It's about human interaction at the end of the day, and that's what we've been starved of during this crisis. So very much an open door for us all to push through I think.

RC:

Maybe last question. Globally speaking, our real estate practice at KPMG is much involved on innovation topics, and we were very enthusiastic to be at the forefront of the PropTech industry. What is your view on the digitization of our real estate industry? Do you consider innovation as a solution to reinforce appeal of the real estate assets, and could you provide us with some examples or solutions you put in place?

JMT:

It's something that digitization of our business is a way for us really to be part of the future when considering relationships to the end customers and the retailers. We see that as an enabler. It's not a goal in itself. It's just an enabler of something else, and the enabler that we see is really these social links, this Reinvent Being Together. This is just a tool (Inaudible) the people coming together at one point in time. When you look at the social networks, it always ends with a gathering, whether a party or dinner, an event. The purpose of these social network is connecting people together.

So for us it's the connected retail that is really the DNA, part of the DNA of the destinations that we are developing for years now and that we want to continue to develop in the future. So I really see just this digital work being an enabler of better connections, a better ability to advise and serve the people and serve the customers and our partners and the retailers. So that's really what we see. So this is what we have been developing at Unibail-Rodamco-Westfield. We've been developing the digital data framework such as we start to understand what is the customer journey of our consumers. What are the pain points that they are facing every time they visit us?

How can we help keep these pain points such as we eliminate all this micro stress that they have when they come to see us to make this experience even better and seamless for them and that they can really enjoy the reason why they come to us and not keep a bad memory of being able to find a place in our parking, being able to find a store, to have access to the right special office that could be of interest for them? So it's really how we connect the people with what we do, with the experiences that we provide and then provide them with the best service.

RB:

So I think digitalization for us has different elements. First of all, it's a process which in our business, because it's a B2C business, is very important how we interact with our customers. This is completely digitalized today. This was the reason, for example, why we had no impact from COVID-19 because we could switch actually to complete digital processes in an hour. So I think this is one element, and this is (Inaudible). The second element of digitalization is applications which we can sell to the tenants. Very easy is a fast Internet access, but it is also applications for older people which the buildings have to be equipped with, applications for security for all other things which is all they need.

The third element is probably for us the most important is about what all PropTechs are doing at the moment, the development of the building, so in the construction phase but also in the operating phase. Think about elevators which have to be from a distance maintained. Think about heating systems, and heating systems, we are coming back to the CO_2 because intelligent heating systems and learning how a (Inaudible) is consuming energy will be a key factor for us to reduce actually the energy consumption.

So this all together only goes the full digitalization of the buildings and all the processes, so a lot of digital innovations there. Again, this is a competitive advantage because if I see all these smaller companies, for them it will be very difficult to develop something.

SC:

Maybe the area where this perhaps the best potential is in terms of construction technology. If you look at how long it takes to build a building and how much it costs, productivity has perhaps even gone backwards in construction over the last ten, 20 years which is completely at odds as to what we've seen in other industries. So I think there's a huge opportunity there with modern methods of construction, and I think we're going to see here big strides forward over the next five to ten years.

I'm like Rolf in saying I think there's a big bit around the efficiency of using space. Our customers are really focused on that particularly in offices, understanding the productivity of their space, how many people they have in each day, controlling their heating to manage emissions from their buildings, and so that's where sort of smart technology comes in.

Then the other aspect that's pretty similar to the comments you've heard – we probably just give it a slightly different name – we refer to digital placemaking. So that's the idea that the digital is seamless with the physical realm as well. So we've created an app that our office employees have where they coming into their building. They get touchless entry. They can control the heating. They can control the lighting, and equally they can hear about what's going on around the campus, what events create networks with people with similar interests from other employers that are on the same campus. So those would be the three elements: modern methods of construction, the efficiency of space and digital placemaking really for us.

RC:

On behalf of KPMG real estate partners around the globe, I would like to thank you. Thank you so much. It was a very insightful discussion, and it was an actual privilege to share your views on the many topics. So thank you so much.