News Release

Global Mega Trends will shape the future of Real Estate

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At Schroders’ Global Real Estate Conference, held last week, Duncan Owen, Schroders’ Global Head of Real Estate, addressed the audience of over 200 people, including pension funds, insurance companies, charities and wealth managers from across the globe, with his key mega trends that will drive Global Real Estate in the future:

- **Rapid urbanisation** – global cities will benefit most from growth. The UN forecasts there will be 40 global cities by 2025, already 60,000 people are moving to cities everyday in China and India
- **Demographics** – life expectancy will continue to be longer, it is anticipated that by 2025 the population would have grown by 1 billion
- **Technological revolution** – ecommerce, the internet and innovation is changing how people live and work, as well as how they shop and how services are provided. This is changing demand and the value of locations. For example, Alibaba has over 800,000 suppliers but does not manufacture and distribute as well as having 350 million customers without needing a shop.
- **Resource and Power** – which buildings are energy efficient? Global demand will be 50% higher in 2030, the world will require 35% more food in 2030
- **Shift from West to East** – The E7, the largest emerging markets, are forecast to overtake the G7 by 2030, this will change demand for real estate in the East and the West.

Keith Wade, Schroders’ Chief Economist, then provided his thoughts on the post-election challenge. He asked the audience ‘how likely do you think it is that the UK will still be a member of the EU in 2020?’ from a multiple choice of Very Likely down to Very Unlikely, the audience voted overwhelmingly Very Likely or Likely with 96%. Only 4% of the audience thought it was Unlikely or Very Unlikely. Keith was generally optimistic on the global economy, although his forecast for a rate rise in the US by the Fed is now earlier than current market predictions.
Mark Callender, Head of Real Estate Research, presented ‘Big city, bright lights, better returns?’. He chose to focus on the urbanisation mega trend, which is set to dominate real estate growth in the future. It is predicted that Tokyo will retain its top position as the world’s most populated city in 2030. It will be quickly followed by Delhi, Shanghai and Mumbai. He cited the significance of London and Paris which although together accounted for less than 1% of the world’s population, collectively have accounted for 16% of the world’s office investment deals over the past 3 years. It is expected that these mega cities will continue to grow faster than their surrounding countries and they should deliver attractive returns for investors, so long as new building development remains subdued.

Three of Schroders’ top real estate fund managers gave their view on where investors can find value in real estate markets starting in the UK then looking at continental Europe and across the globe:

- Nick Montgomery, Head of UK Real Estate Investment, explained how the next stage of the cycle in the UK real estate market is likely to be driven by occupiers not investors. Yields are low and investors need to lock into rental growth. He looks for towns and cities with global facing economies, wealth effect, strong tourism and population growth. His top picks were London, Manchester, Cambridge, Brighton, Oxford and Milton Keynes for the next few years. Nick commented: “These locations are currently providing us with some good stock opportunities, which, coupled with pro-active management, is the key to potential long-term performance of our funds”.

- ‘Finding Value in Continental Europe’ was the theme of the presentation from Tony Smedley, Head of Continental European Real Estate Investment. He emphasised that Europe is not a single market and it is important to focus on the key 10-12 growth cities where local knowledge is essential to identify value. Countries, regions and cities operate in different cycles and investors should focus on micro influences such as supply constraints, infrastructure and demographic changes, not the macro environment. Key investments have recently been made by Tony and his team in Paris, where Schroders is seeing rents growing from a low point and Berlin where the city is undergoing rapid urbanisation and fast becoming a tech hub. Both cities are expected to grow at a faster rate than their domestic economies; a key feature of market selection.

- Tom Walker, Co-Head of the Schroders’ Global Real Estate Securities team, concluded with a focus on the global investment themes driving the performance of the funds he manages. He reiterated the importance of long term trends driving income growth of select real estate markets globally some examples of which include SL Green for leading the way in Urbanisation, Unite for
Demographics and Public Storage for Technology. Globally the Schroder real estate securities fund he manages is invested 55% in North America, 29% in Asia and 16% in Europe.

Guest speaker, financial journalist and commentator David Stevenson gave the audience his take on the outlook for a wide range of assets, areas and economic issues including his less-consensual views called “greyish swans with black spots” such as the possibility of oil dropping to $20 a barrel as Saudi Arabia continues to squeeze US shale producers. He asked the audience “How long will interest rates remain below 2% in the UK?”. Nearly 90% of the audience thought between 5 and 10 years but David suggested decades – perhaps not rising by much more than half a per cent for the next 30 years.

The Conference concluded with a Panel made up of Chris Hills, the CIO at Investec Wealth & Investment, Tom Osterwalder, CIO at Zurich Invest and Crispian Collins, Chairman of Schroder Global Real Estate Securities Fund. They discussed two key news themes in Europe - the possible consequences of a Brexit and the likelihood of a Grexit.

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Schroders plc

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i Source: UNFPA June 2013

ii Includes holdings of Real Estate Capital Partners and Schroders Multi-asset Funds in the Real Estate AUM