Emerging Trends in Real Estate 2020

The 2020 MAAR Commercial Summit
February 20, 2020
Market Sentiment; Still positive, but are we seeing some diversity in opinion?
Is this what an extended expansion looks like?

- Abysmal to poor is up slightly, but still a very small percent of the total

- Some moderation is expected as those expecting a fair outcome in 2020 rises to 22.6%

- Outlook still shows some confidence as those expecting good rises each year

- Since 2016 the excellent outlook has been cut in half
What is behind the change of heart?

Reasons given for change in expectations from 2019

**Lower**

1. Economy – 36%
2. Fundamentals – 29%
3. Government – 14%
4. Capital markets – 11%
5. Strategy shift – 5%

**Higher**

1. Strategy shift – 28%
2. Fundamentals – 28%
3. Internal changes – 22%
4. Economy – 16%
5. Capital markets – 6%
New Worries?

- Coronavirus
- Election cycle begins
- Geopolitics
- Social Unrest
Let’s not talk ourselves into a recession, but we do need to keep an eye on the possibility
Key numbers to consider

3.2% Post WWII average annual GDP growth

2.0% Consensus forecast for average annual GDP growth over the next 5 years

2.2% Memphis average annual GDP growth over the past 2 years
The danger in relying on averages...

<table>
<thead>
<tr>
<th>Personal consumption expenditures</th>
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<tr>
<td>Goods</td>
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<tr>
<td>Durable</td>
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<tr>
<td>Non durable</td>
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<tr>
<td>Services</td>
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<tr>
<th>Private domestic Investment</th>
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<tr>
<td>Fixed investment</td>
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<tr>
<td>Non residential</td>
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<tr>
<td>Residential</td>
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<tr>
<td>Change in private inventories</td>
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<table>
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<tr>
<th>Government consumption expenditures and gross investment</th>
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<tr>
<td>Federal</td>
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<tr>
<td>National defense</td>
</tr>
<tr>
<td>Nondefense</td>
</tr>
<tr>
<td>State and local</td>
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<table>
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<tr>
<th>Net exports of goods and services</th>
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<tr>
<td>Exports</td>
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<tr>
<td>Imports</td>
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</table>
What property types do survey respondents think will be winners in 2020?

72.9%

Average percent of survey respondents that recommend either buying or holding in 2020

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Percent</th>
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<tbody>
<tr>
<td>FULFILLMENT CENTERS</td>
<td>56.8%</td>
</tr>
<tr>
<td>WORKFORCE HOUSING</td>
<td>52.1%</td>
</tr>
<tr>
<td>SENIOR HOUSING</td>
<td>47.8%</td>
</tr>
<tr>
<td>DATA CENTER</td>
<td>40.7%</td>
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<tr>
<td>MEDICAL OFFICE</td>
<td>39.3%</td>
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Emerging Trends in Real Estate 2020
PwC / ULI
Prospects by investment category/strategy 2020
Survey respondents more risk averse than in 2019 survey

Survey respondents cited the length of the current economic expansion, expectations for slower economic growth and concerns for potential oversupply as reasons to focus more on core investments in 2020.
The flow of capital into real estate is both a blessing and a curse

The Siren Call of TINA
Last time we talked about TINA

A few assumptions that may have gone wrong

• Unrealistic rent growth assumptions
• Further cap rate compression
• Continued demand
2019

Lessons learned! Maybe we are a little more restrained this time around
Despite record high property values, market doesn’t consider them too out of line.

Average percent of all property types that survey respondents feel are fairly priced:

- LUXURY APARTMENTS: 68.7%
- LIMITED-SERVICE HOTELS: 58.3%
- LUXURY HOTELS: 58.3%
- CBD OFFICE: 50.3%
- HIGH STREET RETAIL: 47.5%

Emerging Trends in Real Estate 2020
PwC / ULI
Cities that have invested in their infrastructure are clearly seeing an economic advantage.

Washington stumbles; States and Cities pick up the ball.
What type of infrastructure investment would have the greatest impact on the real estate market

81%

Of Emerging Trends survey respondents feel that transportation related infrastructure investment would have the greatest impact on the real estate market.
### Market Menu

#### Top 20 Markets for 2020

<table>
<thead>
<tr>
<th>Market Price</th>
<th>A rising number of choices appealing to many appetites</th>
</tr>
</thead>
</table>

#### Major Capital Magnets

<table>
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<tr>
<th>Seasonal</th>
<th>Old favorites that we keeps us coming back</th>
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#### Determined Competitors

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<tr>
<th>Mixed Pricing</th>
<th>Familiar choices that may hide a hidden kick</th>
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#### Aligning Expectations

<table>
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<tr>
<th>Fair Pricing</th>
<th>Choices that are delivering what they promise</th>
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#### Treasures Ripe for Discovery

<table>
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<tr>
<th>Mixed Pricing</th>
<th>An oyster with a pearl or tomorrow’s favorite today</th>
</tr>
</thead>
</table>

#### Potpourri: Thrifty Choices, Boutiques, and Special Situations

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<tr>
<th>Ala Carte</th>
<th>You may be pleasantly surprised what you’ll find</th>
</tr>
</thead>
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“One size doesn’t fit all”
Top 20 Markets

- Heavily weighted toward growth and the Southeast
- More diverse and reflect recent volatility
Boutique Markets

- Diverse market set
- Investment below expectations
- May be transitioning economies
- Specialized knowledge is a distinct advantage
- Dominated by local/regional market participants
High growth or low growth, Southeast or Midwest, everyone is talking about some form of housing affordability.
Political climate is leading to a rise in rent control rules

Concern that areas that enact rent control will inadvertently slow new investment in existing housing stock and slow the development of new housing.
Housing shortfall
Household formations easily outpace new supply

- A simple analysis that doesn’t even address geographic specifics, but clearly points to the depth of the problem
- Demographic and economic factors are driving household formations
- Demographic and economic factors are making it difficult for the housing industry to add units at the required rate
Searching for a feeling of place

While technology and the gig economy have given us the tools to work from anywhere, human nature seems to crave a sense of community. This is having an impact on the real estate industry as well:

- Employers are finding that creating a sense of community is a benefit in the attraction and retention of employees.
- Multifamily properties are substituting unit amenities with community amenities to appeal to tenants.
- Landlords that can create a sense of community in their buildings find it easier to attract and retain tenants.
- Neighborhoods are looking to attract the right buildings that will be an anchor to developing a community feel in the surrounding area.
Remember when it was just work space?

1960’s interpretation of the open office concept

1980’s interpretation of a private office concept

Today’s interpretation of collaboration space
It is all about work process

One work space does not fit all work

Tenants want space to address different goals

• Collaboration in formal and informal settings
• Quiet space for individualized work
• Available space for hotelling workers
• Flexible space that can be utilized to house staff on a temporary basis
• Space where employees can relax, eat, socialize
Community doesn’t end at the workplace

Tenants

Building

Neighborhood
Suburbs are becoming cool again

The expectation that Millennials would begin to move to the suburbs has become a reality. This generation however, is putting their own spin on the suburbs they are choosing.

- Suburbs that are in favor offer many of the same amenities that drew the generation to the urban core
- Many of these suburbs are also gentrifying to meet the needs of the new residents
- “You can’t be a suburb of nowhere” – Suburbs in markets with strong urban cores are seeing the most growth
Cool Suburbs

Source: Apartment therapy
Big surprise! The boomers may not be doing what we thought they would, what will be the impacts on following generations?
Population over 65 on the rise

22%

The percent of total population over 65 in 2046. The year the first millennial will turn 65

Source: US Census Bureau, Moody’s Analytics
Sustainable and green building has been so successful, that ESG just seems like the natural progression of these ideals.
## Factors influencing the ESG market

### $30 Trillion end of 2018
- Up 34% since 2016
- Europe = $14.1 Trillion
- United States = $12.0 Trillion
- Up 38% since 2016

### Cities with Zero Carbon Initiative Goals
- Over 100 cities have announced climate targets
- New York City – Climate Mobilization and Local Law 97
- Los Angeles – Green New Deal

### Reasons for ESG Investing
- Client demand
- Fulfill mission or values
- Pursue social or environmental benefits
- Improve returns
- Minimize risks
- Fulfill fiduciary duties
List of ESG issues considered by private equity investors

More than just green buildings, areas of concern range from ethics to personnel management
The ultimate goal of implementing technology is to make the whole equal more than the sum of the parts.
We continue to generate more data every year!
How technology is being used today

- **Visualization**
  - Seeing how things are going to happen

- **Facilitation**
  - Making life easier for tenants

- **Collaboration**
  - Bringing people and processes together

- **Efficiency**
  - Improve operational processes

- **Decisions**
  - Using data to enhance decision making
Will 5G allow current and existing technologies to have a real impact?

5G will enhance speed and reliability

The increased speed and latency provided by 5G will make a number of technologies viable

- Increased broadband access
- Autonomous vehicles/smart infrastructure
- Control of remote devices
- Machine learning and enhanced IOT (internet of things)
What you don’t want to see when...
A confident industry

Slower but more sustainable growth?

Strategy will be more important as there will be more over/under performers

Change will be ongoing
Thank You!

Please feel free to download a copy of the report at
ULI.org/ET20
Or
PwC.com/us/etre

Questions  Feel free to contact me at:
andrew.warren@pwc.com