Emerging Trends in Real Estate 2018

Navigating at Altitude

“We are in a long cycle, not in boom/bust. The key to the next few years is to expand horizons, market by market, property type by property type.”
Emerging Trends in Real Estate 2018

- Emerging Trends is the industry’s “most predictive forecast”
- 39th annual outlook
- Based on personal interviews with over 1,000 individuals representing 590 organizations combined with an additional 1,600 online surveys
- 52 Market Focus Groups
- Sponsored jointly by PwC and the Urban Land Institute
How do we feel about 2018?
How would you characterize the expected profitability of your real estate business in 2018?

A. Good-Excellent
B. Fair
C. Abysmal-Poor
Profitability Outlook

2010

- Abysmal to Poor: 17.7%
- Fair: 60.6%
- Good to Excellent: 21.6%
Profitability Outlook

2015

- **74.0%** Good–excellent
- **24.9%** Fair
- **1.1%** Abysmal–poor

Emerging Trends in Real Estate 2018
Profitability Outlook

2017

- Abysmal - poor
- Fair
- Good - Excellent

- 81.3%
- 16.8%
- 1.9%
Profitability Outlook

2018

- 79.6% Good–excellent
- 19.3% Fair
- 1.1% Abysmal–poor
Buy, Hold, Sell

Emerging Trends in Real Estate 2018
What word would you use to describe the 2018 real estate market?

Top 5

#1 Competitive
#2 Cautious
#3 Measured
#4 Uncertain
#5 Growing
**Biggest Movers from 2017**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Mood</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.7%</td>
<td>Treacherous</td>
</tr>
<tr>
<td>23.3%</td>
<td>Frenzy</td>
</tr>
<tr>
<td>24.1%</td>
<td>Troublesome</td>
</tr>
<tr>
<td>26.5%</td>
<td>Neutral</td>
</tr>
<tr>
<td>37.5%</td>
<td>Sanguine</td>
</tr>
</tbody>
</table>
Emerging Trends in 2017

Slow Glide to a Soft Landing

Working Smarter and Harder

Procession of Generations: Gen Z

Don’t Forget the Boomers

Retail Transforms and Stores Remain

Housing at a Technological Tipping Point

It’s Different This Time…Isn’t it?
Long glide path to a soft landing

“I hate ‘the what inning are we in’ question. It makes it seem like cycles have to end after a pre-set time has elapsed.”
Current expansion, slow by comparison but is it more sustainable?

GDP and employment growth during past recoveries and expansions

Size of bubble corresponds to length of expansion

Annual Employment Growth

Annual Real GDP Growth

Source: NBER, Bureau of Economic Analysis, Bureau of Labor Statistics
Investment returns converging

Where is the risk premium?

Source: Standard & Poors, Bank of America, NCREIF
“...Real estate facilities are not just overhead, but a way to improve not just employee happiness and engagement, but also productivity.”
Not the “Gig” economy, but the “Freelance” economy

Don't call this the gig economy

- 49% Freelance economy
- 13% Sharing economy
- 25% On-demand economy
- 3% Other economy

Millennials are leading the way

- 47% of Millennial workers freelance, more than any other generation

57.3M people freelance

Freelancing in America Report, 2017
Which makes what we said two years ago more relevant

Efficiency of US office stock

Percent of Office Inventory by Decade Constructed

Source: U.S. Energy Information Administration, CoStar
Improvement over acquisition?

Office cap ex as a % of market value

4Qtr moving average

30-year average

Source: NCREIF
Procession of Generations & Don’t Forget the Baby Boomers

Gen Z

Millennial

Boomer

Gen X
**Procession of Generations....Gen Z**

“It isn’t what you don’t know that you should be worried about; it’s what you think you know.”

<table>
<thead>
<tr>
<th>THOUGHT we knew</th>
<th>NEED to know</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Boomers</strong></td>
<td><strong>Gen X</strong></td>
</tr>
<tr>
<td>Retire early &amp; to mild climates</td>
<td>Bigger suburban houses</td>
</tr>
<tr>
<td><strong>Millenials</strong></td>
<td>Urban forever</td>
</tr>
<tr>
<td></td>
<td>Hit by GFC</td>
</tr>
<tr>
<td></td>
<td>Majority in suburbs already</td>
</tr>
</tbody>
</table>
Boomers plan to stay in the workforce longer

**Planned Retirement Age**

<table>
<thead>
<tr>
<th>Year</th>
<th>Age 65 to 69</th>
<th>Age 70 or older</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>26.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>2012</td>
<td>26.0%</td>
<td>23.0%</td>
</tr>
<tr>
<td>2013</td>
<td>26.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>2014</td>
<td>35.0%</td>
<td>28.0%</td>
</tr>
<tr>
<td>2015</td>
<td>28.0%</td>
<td>28.0%</td>
</tr>
<tr>
<td>2016</td>
<td>33.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>2017</td>
<td>32.0%</td>
<td>27.0%</td>
</tr>
</tbody>
</table>

Source: Insured Retirement Institute, "Boomer Expectations for Retirement 2017"
Best Bet!
Senior housing gains momentum

Labor force ages 65 to 74

Labor force participation rate

Source: Bureau of Labor Statistics
The Next Trend: Gen Z

- Born 1995 to Present
- 0 to 22 years old
- 25.9% of America’s Population
- Boomers are 23.6%
- Millennials are 24.5%
- Growing up in a post 9/11 World
- + 50% increase in the multiracial youth population since 2000
- Live in Multigenerational households
- 80% know about human impact on the planet/76% are concerned about the impact
- 17 Jobs and 15 homes in a life time
“I’ve been hearing talk about how technology will transform the way builders build homes. Now, I look at what’s been happening, and for the first time ever, I’m thinking it’s more than talk”
Higher sales prices won’t guarantee more new homes

Source: US Census Bureau, IHS Insight
Not much relief in sight for home construction costs

Best Bet!

Evolving housing demand

New Home Price Index (2005 = 100)

Source: US Census Bureau

America's continued construction labor crisis

Soaring lumber prices a problem for home builders and buyers

Real estate CEO: Record-low housing inventory is 'freaking us out'

Housing inventory continues to drop amid tight credit and a growing tendency toward becoming a...
Retail transforms and stores remain

“Retail isn’t dead, it’s just changing.
Give it some time to adjust”
E-Commerce continues to rise as a % of total retail sales

Source: US Retail Census
2016 retail sales distribution by channel (billions of $)

- **In-Store**, $4,278.0
- **Electronic Shopping & Mail Order**, $445.0
- **Fulfilled from Store**, $62.2

**Best Bet! Experiential retail**

Source: US Census Retail Trade Sales Annual Report, ICSC Research
### The Top 10

<table>
<thead>
<tr>
<th>Market</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Austin</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>Raleigh/Durham</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Dallas/Fort Worth</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Fort Lauderdale</td>
<td>35</td>
<td>6</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>San Jose</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>Nashville</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Boston</td>
<td>12</td>
<td>10</td>
</tr>
</tbody>
</table>
### 2018 – Others to Note

<table>
<thead>
<tr>
<th>Location</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>#10</td>
<td>#27</td>
</tr>
<tr>
<td>Orange County</td>
<td>#8</td>
<td>#21</td>
</tr>
<tr>
<td>Portland</td>
<td>#3</td>
<td>#13</td>
</tr>
</tbody>
</table>
It’s different this time...Isn’t it? The market outlook

“Why deal with the uncertainty of a global market when there are opportunities in Salt Lake City and San Antonio?”
The next big market in the survey may be smaller

Top ranked market and cumulative population of top 10 markets by year

Emerging Trends in Real Estate 2018
2018 South: Local Economy

Emerging Trends in Real Estate 2018
2018 South: Investor Demand

Emerging Trends in Real Estate 2018
2018 Sector Outlook: Raleigh/Durham

- Housing
- Office
- Multifamily
- Hotel
- Retail
- Industrial

Raleigh/Durham vs National
2018 Local Outlook: Raleigh/Durham

- Local Economy: +14%
- Investor Demand: +10.8%
- Capital Availability: 4
- Public Private Investment: 3
- Development Redevelopment Opportunities: 3
- Average: 4
- National Average: 3

Emerging Trends in Real Estate 2018
Thank you, and now our panel!

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pwc.com/us/etre