Emerging Trends in Real Estate 2017

Playing for Advantage, Guarding the Flank

Emerging Trends in Real Estate

United States and Canada 2017
• PwC – ULI
• Outlook on Trends
• 38th
• 500/1,500
• Who?
• A record total
• ULI Charlotte – Thank You!

Emerging Trends in Real Estate®
United States and Canada 2017
• Rational
• Opportunities
• Competitive
How would you characterize the expected profitability of your real estate business in 2017?

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

- Abysmal–poor: 1.1%
- Fair: 24.9%
- Good–excellent: 74.0%
Profitability Outlook

2016

84.0%

14.9%

1.1%

- Abysmal–poor
- Fair
- Good–excellent
Profitability Outlook

2017

- Good - Excellent: 81.3%
- Fair: 16.8%
- Abysmal - Poor: 1.9%
Expectations Hitting a Plateau?

- Abysmal - poor
- Fair
- Good - excellent
Buy, Hold, Sell

- **excellent**
  - Sell

- **good**
  - Buy
  - Hold

- **fair**

- **poor**

- **abysmal**

Years: 2004 to 2017
How would you describe the 2017 real estate market? Here is what 900 respondents said.
Emerging Trends in 2017

A Kinder Gentler Real Estate Cycle?

Optionality: the new Flexibility

Labor Scarcity reflected in Construction Costs

Housing affordability: Local Government Steps Up
A Kinder, Gentler Real Estate Cycle?
Market Begins to Moderate on its Own

Banks and CRE Lending

- % of Banks reporting Stronger Loan Demand
- % of Banks Reporting Tightening Underwriting Standards

CRE Transaction Volume

Y/Y change in $ volume

Federal Reserve Board: Survey of Current Lending Conditions, Real Capital Analytics
A Kinder Gentler Real Estate Cycle

Where is the new commercial supply?

Vacancy %

Completions

Vacancy

80 – 00 average

01 – 16 average

Reis, Inc: Sum of industrial, office and retail property
Is the real estate market autocorrecting?
Optionality: the New Flexibility
Optionality—the New flexibility

... Not just one user profile
Optionality - the New flexibility

... At the same time, not just one use

E(verything)-loft
Labor Scarcity reflected in Construction Costs
Declining Labor Force Participation Rate

Labor Scarcity reflected in Construction Costs

Labor Scarcity reflected in Construction Costs

Construction employment volatility

3.15 million jobs added in 168 months

2.28 million jobs lost in 56 months

1.21 million added in 67 months

Recession

Construction Emp

Bureau of Labor Statistics
Labor Scarcity reflected in Construction Costs

Construction labor gets hard to find

12-Month moving average %

Bureau of Labor Statistics
Labor Scarcity reflected in Construction Costs

So what is the solution?
2017 potential best bet

Take advantage of enhancements in construction technology
Housing Affordability: Local Government Steps Up
Income growth just can’t keep up with existing home prices

National Association of Realtors, Bureau of Economic Analysis
Shortage of homes will make it difficult for affordability to see significant improvement

Cumulative Surplus/Deficit

Housing Completions

Housing Affordability: Local Government Steps Up

US Census Bureau
Housing costs are an increasing burden in more markets

National Association of Realtors, Bureau of Economic Analysis, PwC Research
So what is the solution?

- No one solution

- Local government:
  - Rediscoveries
  - Innovations with NOAH
Markets to watch
# The Top 10

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>Market</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>1</td>
<td>Austin</td>
<td>18 - Hour</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>Dallas/Fort Worth</td>
<td>18 - Hour</td>
</tr>
<tr>
<td>9</td>
<td>3</td>
<td>Portland</td>
<td>18 - Hour</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>Seattle</td>
<td>18 - Hour</td>
</tr>
<tr>
<td>10</td>
<td>5</td>
<td>Los Angeles</td>
<td>Gateway</td>
</tr>
<tr>
<td>7</td>
<td>6</td>
<td>Nashville</td>
<td>18-Hour</td>
</tr>
<tr>
<td>11</td>
<td>7</td>
<td>Raleigh/Durham</td>
<td>18-Hour/Suburban</td>
</tr>
<tr>
<td>14</td>
<td>8</td>
<td>Orange County</td>
<td>18-Hour/Suburban</td>
</tr>
<tr>
<td>3</td>
<td>9</td>
<td>Charlotte</td>
<td>18 - Hour</td>
</tr>
<tr>
<td>8</td>
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<td>San Francisco</td>
<td>Gateway</td>
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### 2017 Property Type Investment Outlook

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<th>Investment Outlook</th>
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<tr>
<td>Fulfillment Center</td>
<td>Poor</td>
</tr>
<tr>
<td>Warehouse</td>
<td>Poor</td>
</tr>
<tr>
<td>Urban/high street retail</td>
<td>Excellent</td>
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<tr>
<td>Age-restricted housing/multifamily</td>
<td>Poor</td>
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<tr>
<td>Medical office</td>
<td>Poor</td>
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<tr>
<td>Moderate/workforce apartments</td>
<td>Poor</td>
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<tr>
<td>Affordable apartments</td>
<td>Poor</td>
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<tr>
<td>Central city office</td>
<td>Poor</td>
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<tr>
<td>Neighborhood shopping centers</td>
<td>Poor</td>
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<tr>
<td>Student housing</td>
<td>Poor</td>
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<tr>
<td>Lifestyle/entertainment centers</td>
<td>Poor</td>
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<td>Midscale hotels</td>
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<td>Upscale hotels</td>
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