Emerging Trends in Real Estate 2019

A New Era Demands New Thinking
“Real estate as an asset class has matured. Market participants need to realize this and make the appropriate adjustments.”
“Sure it feels like the activity level will moderate, but more like a plateau and not a sharp downhill slide.”
What word would you use to describe the 2019 real estate market?

**Top 5**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Description</th>
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<tbody>
<tr>
<td>#1</td>
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<td>Cautious</td>
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<td>#4</td>
<td>Evolving</td>
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<td>#5</td>
<td>Overheated</td>
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2019 Expected Profitability

2018

- Poor, 1.1%
- Fair, 19.3%
- Good, 62.8%
- Excellent, 16.8%

2019

- Poor, 0.8%
- Fair, 20.4%
- Good, 61.8%
- Excellent, 17.0%

Emerging Trends in Real Estate 2019 Online Survey
2019 Expected Profitability

Total Market
- Excellent, 17.0%
- Fair, 20.4%
- Good, 61.8%
- Poor, 0.8%

Triangle Region
- Excellent, 23.1%
- Fair, 19.2%
- Good, 57.7%

Abysmal  |  Poor  |  Fair  |  Good  |  Excellent
2019 Market Outlook

Opinion of current pricing doesn’t appear to indicate a market peak.

Emerging Trends in Real Estate 2019 Online Survey

- **Industrial**
  - Over Priced: 29.1%
  - Fairly Priced: 64.7%
  - Under Priced: 6.3%

- **Multifamily**
  - Over Priced: 36.1%
  - Fairly Priced: 57.9%
  - Under Priced: 6.0%

- **Retail**
  - Over Priced: 41.6%
  - Fairly Priced: 48.8%
  - Under Priced: 9.6%

- **Office**
  - Over Priced: 38.8%
  - Fairly Priced: 50.8%
  - Under Priced: 10.4%
Market Outlook

Long economic expansions aren’t that uncommon

- **Australia**: Since 1991 - 3.2% Avg - 324
- **South Korea**: Since 1998 - 4.4% Avg - 240
- **Ireland**: 1986 - 2007 - Ireland 5.9% Avg - 234
- **Netherlands**: 1981 - 2003 - 2.9% Avg - 228
- **Canada**: 1991 - 2008 - 2.7% Avg - 204
- **US**: 1991 - 2001 - 3.8% Avg - 120
- **US**: Since 2009 - 2.3% Avg - 114
- **US**: 1961 - 1970 - 5.1% Avg - 106

Source: OECD
What inning are we in?

25 innings

Longest major league game in baseball history. On May 8, 1984 the Chicago White Sox defeated the Milwaukee Brewers, 7 – 6.
“Demographic growth is slowing and you can’t deny it will have an impact on the real estate industry. Making the right choices will be key.”
Intensifying Transformation

Slower GDP growth projected to be the norm, but contribution by component remains stable

Source: BEA, IHS Markit

Average Annual GDP Growth %

Contribution by Component %


-0.5 0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0 4.5 5.0

Fixed Investment: Residential Fixed Investment: Nonresidential Consumption Total
**Intensifying Transformation**

**Slower GDP growth projected to be the norm, but contribution by component remains stable**

*Source: BEA, IHS Markit*

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**Triangle Region continues to exceed the US rate**

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*Source: BEA, IHS Markit*
Intensifying Transformation

Triangle Region Annual Employment Growth Versus the US

Source: BLS, IHS Markit
Easing into the Future

Natural population change

Source: Census Bureau, IHS Markit
Easing into the Future: More workers leaving the workforce

Population turning 18 and 65 by year

Source: US Census Bureau
“Someday, the most valuable component of an office building may be the data it generates.”

Dealing with disruption
41% Annual increase in global real estate tech investment over the past 4 years

Source: CB Insights
Accelerating Digital Transformation

- Nearly $7.0 trillion asset class
- 13.2% - real estate rental and leasing value add contribution to GDP
- Technology attracted to fragmented nature of the industry: **Asset Management, Brokerage, Development, Due Diligence, Finance, Facility Management**
- Key industry companies have begun their own investment
- Maybe...
What does disruption look like?
Their Biggest issues – people didn’t rewind these
Taking their eye off the ball
Markets to watch

- 18-hour city 3.0

“The competition for talent makes being in the right market of vital importance.”
Markets to Watch

Overall Real Estate Prospects

#1 Dallas/Ft. Worth
#2 Brooklyn
#3 Raleigh/Durham
#4 Orlando
#5 Nashville
#6 Austin
#7 Boston
#8 Denver
#9 Charlotte
#10 Tampa/St. Petersburg
What Makes the Triangle Region #3?

- Good to Excellent outlook for investment and development by property type

2019 Property Type Ranks

- Office #1
- Retail #8
- Multifamily #8
- Industrial #24
- Single Family #7

Source: 2019 Emerging Trends in Real Estate Online Survey
What Makes the Triangle Region #3?

- Not just a desirable place to invest, but a real chance that you could...
“The pace of change faced by all property types is making the future viability of each asset increasingly important.”

Property type outlook

- Retail transforms
- Myth of free delivery
### Property Type Outlook

#### Investment

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<td>MF housing</td>
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#### Development

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PwC

27
Why Do We Care About Technology?

70% The percent of survey respondents who felt technology would have no impact on the demand for retail space.
Retail Transforming to a new Equilibrium

Retail sector responds quickly to slowing demand

Shopping center GLA (Sq.Ft) added by year

25-Year Average, 112,000,000 (Sq.Ft.)

Source: REIS, Inc
Retail Transforming to a new Equilibrium

Transformation to less square feet per capita continues

Decrease in retail Sq.Ft. per
The Myth of “Free Delivery”

Estimated last mile cost per package in a urban, high-density, e-commerce route

An average of 30% of online purchases will be returned

Average value of an online purchase $82

Estimated last mile cost per package in a urban, high-density, e-commerce route

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<td>Maintenance/Other</td>
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<tr>
<td>Total</td>
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Source: CSCMP