

# Emerging Trends in Real Estate 2020

ULI Nashville Real Estate Outlook 2020  
November 22, 2019



# Emerging Trends in Real Estate 2020



- Predictive Industry publication now in it's 41<sup>st</sup> year
- Sponsored jointly by ULI and PwC
- Input from over 2,200 industry leaders

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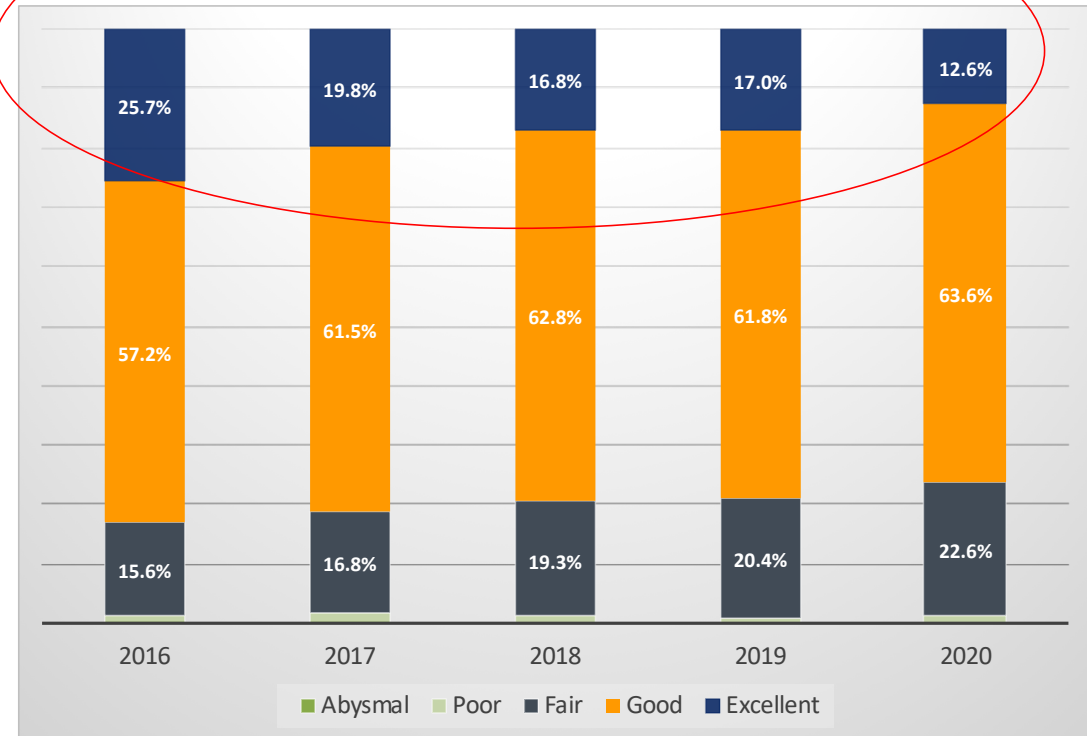
Market Sentiment; Still positive, but are we seeing some diversity in opinion?



# 2020 Expected Profitability

## 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?

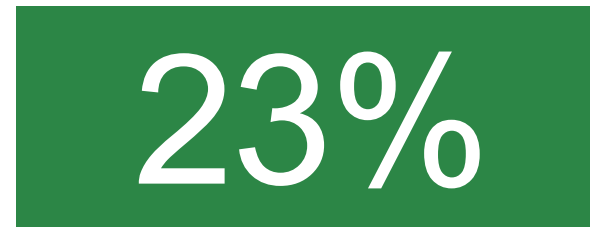
*Reasons given for change in expectations from 2019*

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%**

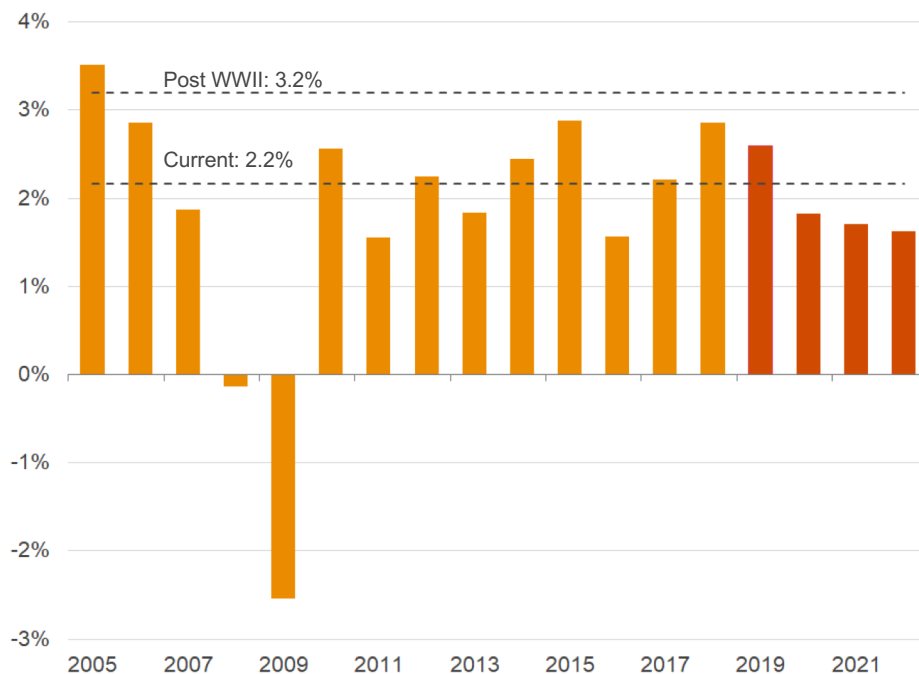
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Let's not talk ourselves into a recession, but we do need to keep an eye on the possibility



GDP growth is projected to downshift to a more sustainable — but slower — pace  
Baseline expectations are for a “lower for longer” soft landing, but there are significant downside risks.

### US real GDP growth Year-over-year % change



Source: IHS Markit

Emerging Trends in Real Estate 2020  
PwC / ULI

#### US “growth recession”

US economic growth peaked in 2018. Fiscal stimulus lifted growth above its potential, though it will likely moderate into a “lower for longer” 2% growth scenario. Profits will feel pressure.

#### Near-term downside risks

Policy mistakes, business investment uncertainty, prolonged US-China tensions, slower rest-of-world growth, and treacherous corporate debt are all downside risks.

#### Competitive dynamics

Intensifying market concentration is creating “winner take most” dynamics. Market leaders are increasingly capturing growth, but are also driving business investment and corporate leverage.

#### Long-term market destabilizers

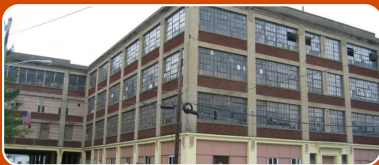
Businesses need to retool their strategies to account for 4IR business model disruption, sustained geopolitical divergence, and rising protectionist economic and regulatory policy.

# The danger in relying on averages...



C

Personal consumption expenditures  
Goods  
Durable  
Non durable  
Services



+ I

Private domestic Investment  
Fixed investment  
Non residential  
Residential  
Change in private inventories



+ G

Government consumption expenditures and gross investment  
Federal  
National defense  
Nondefense  
State and local

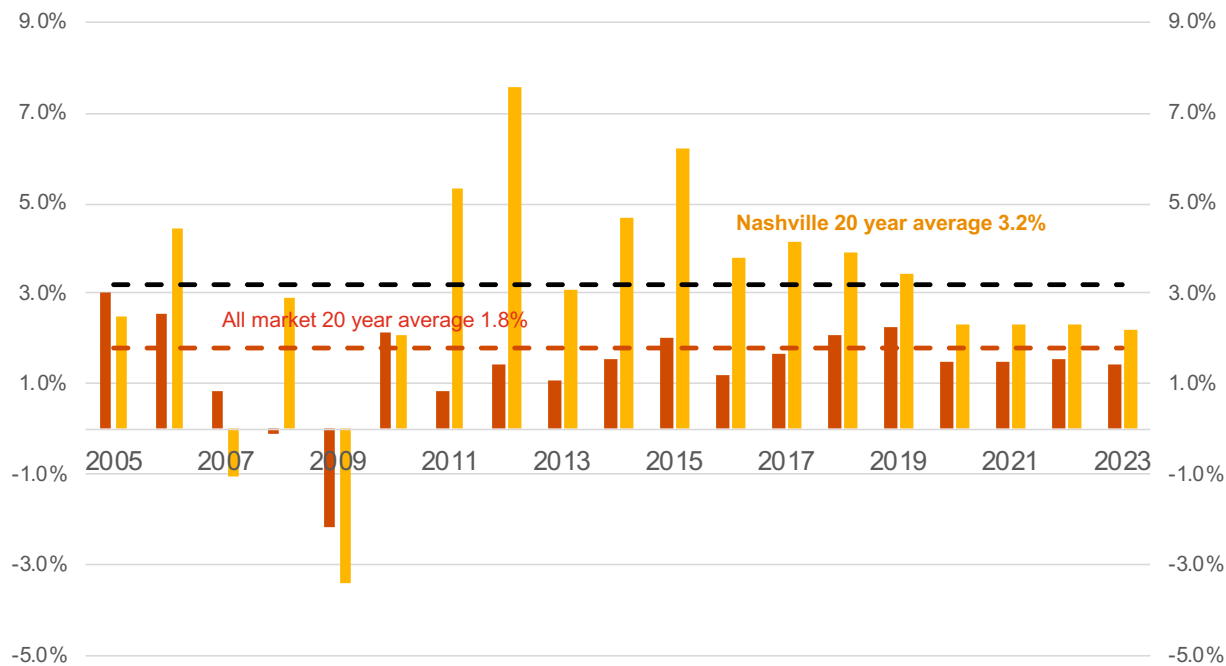


+/- X

Net exports of goods and services  
Exports  
Imports

# Danger of relying on averages

## Real GDP growth average of all metros and Nashville



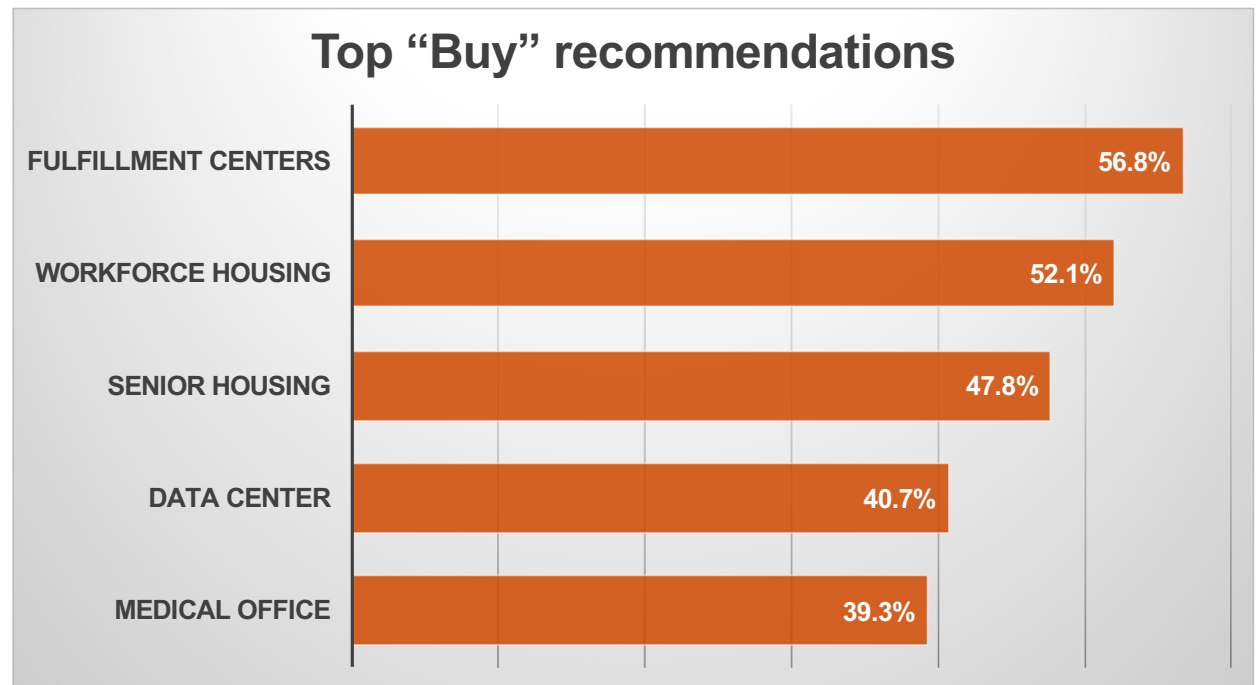
*Expectation is that economic growth in Nashville will continue to outpace the national average*



# 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*



“

The flow of capital into real estate is both a blessing and a curse

The Siren Call of TINA

# ASSET ALLOCATION



**2007**

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

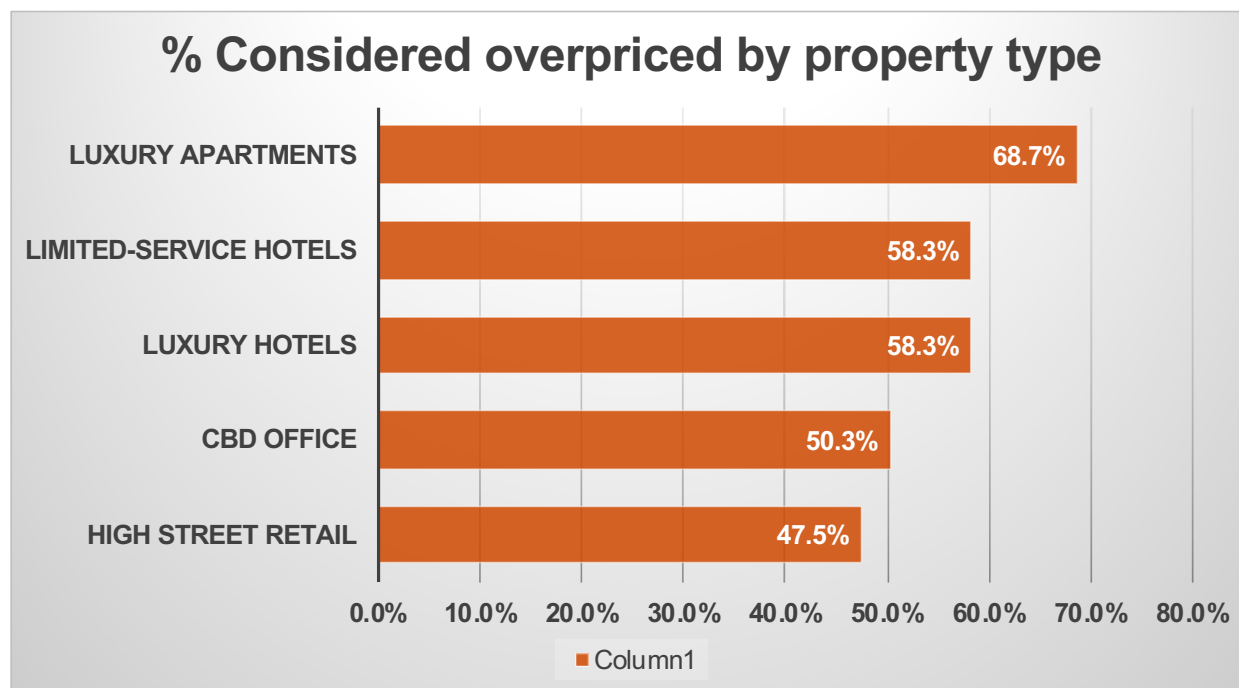
Maybe the industry has  
sharpened it's technique  
a bit



Despite record high property values, market doesn't consider them too out of line

**57.5%**

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





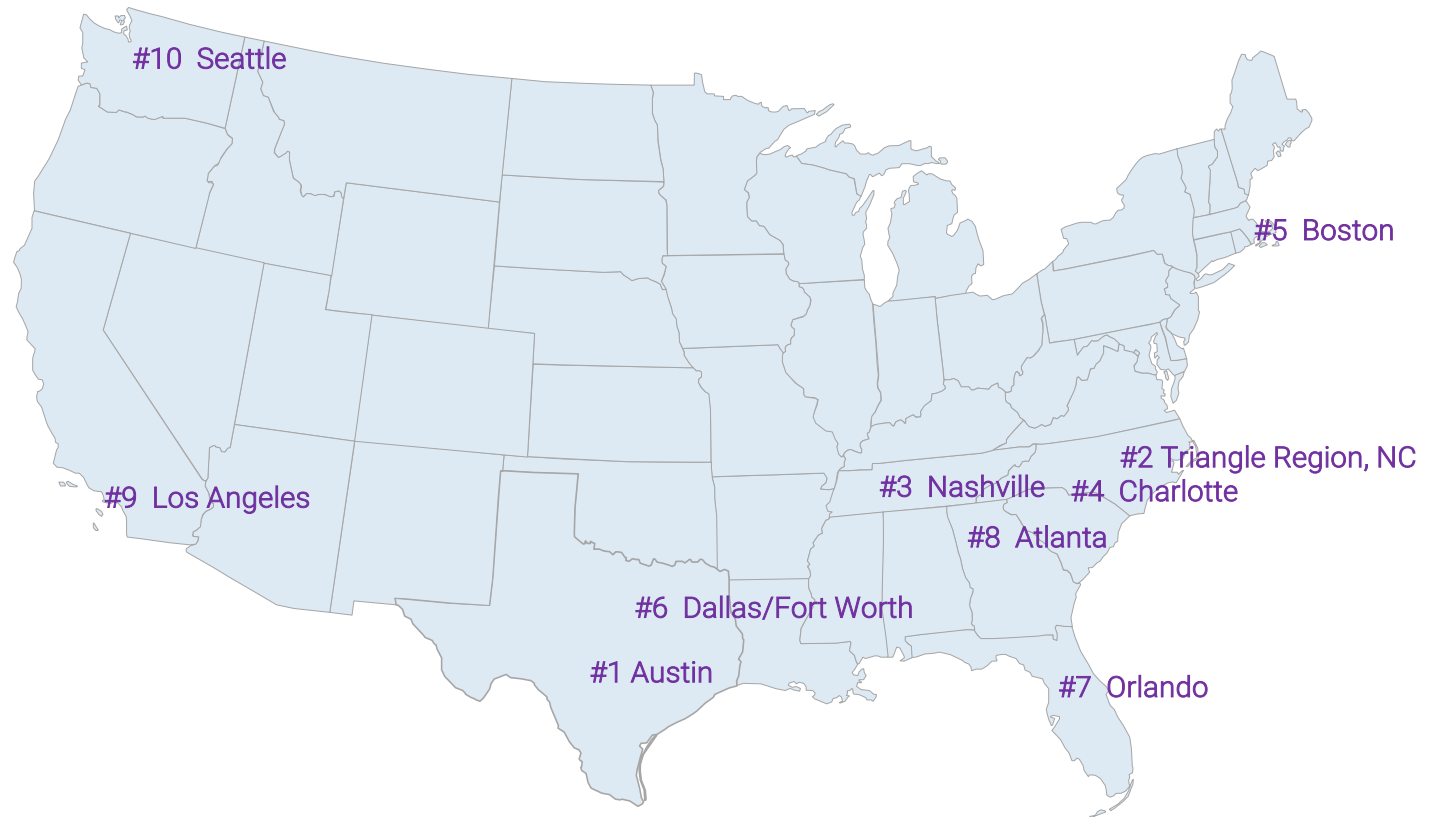
“ One size  
doesn’t fit  
all

## Market Menu

<b>Top 20 Markets for 2020</b> <i>A rising number of choices appealing to many appetites</i>	Market Price
<b>Major Capital Magnets</b> <i>Old favorites that we keeps us coming back</i>	Seasonal
<b>Stalwarts, Surprises and Determined Competitors</b> <i>Familiar choices that may hide a hidden kick</i>	Mixed Pricing
<b>Aligning Expectations</b> <i>Choices that are delivering what they promise</i>	Fair Pricing
<b>Treasures Ripe for Discovery</b> <i>An oyster with a pearl or tomorrow’s favorite today</i>	Mixed Pricing
<b>Potpourri: Thrifty Choices, Boutiques, and Special Situations</b> <i>You may be pleasantly surprised what you’ll find</i>	Ala Carte

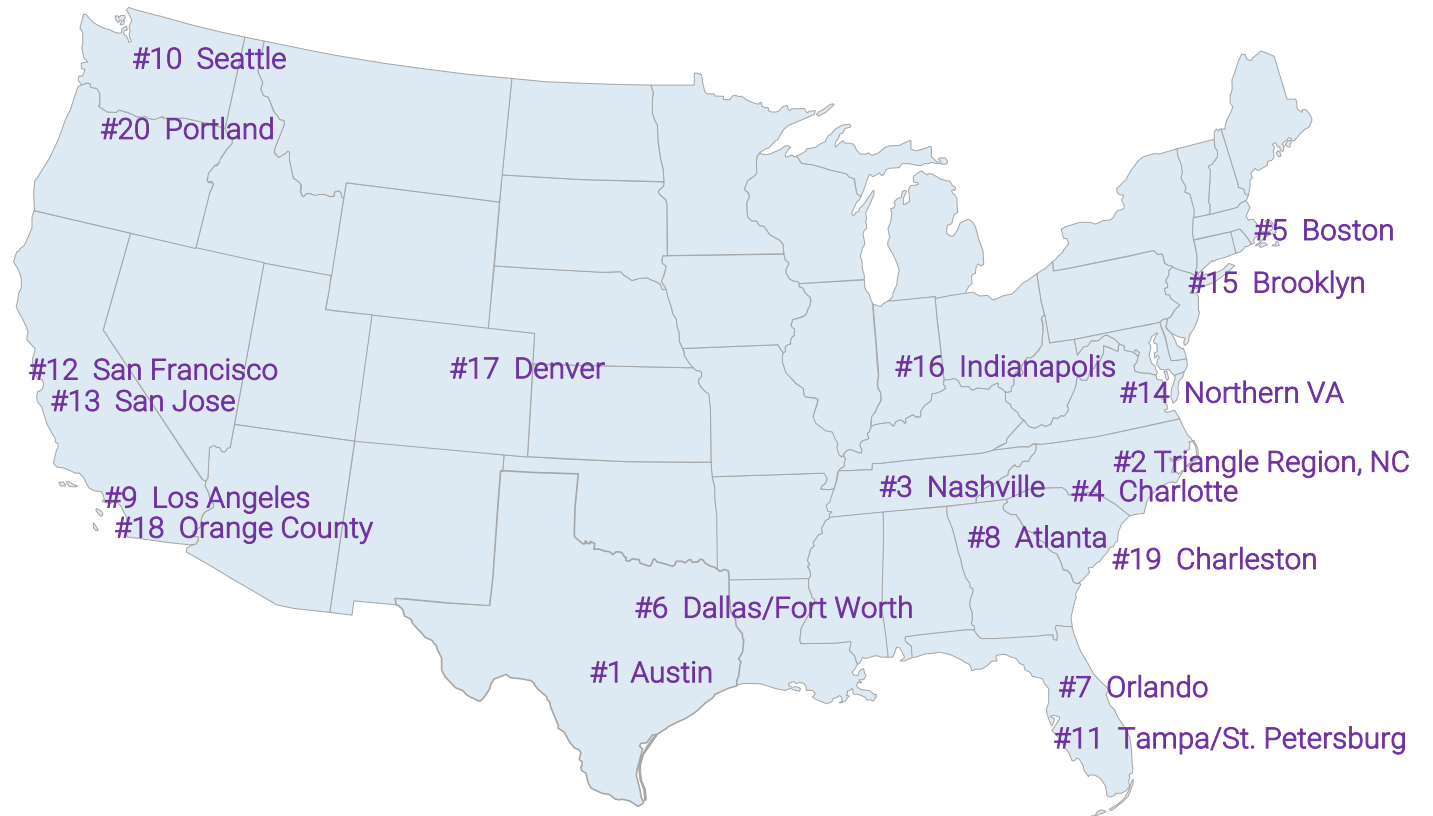
# Top 10 Markets

□ Heavily weighted toward growth and the Southeast



# Top 20 Markets

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

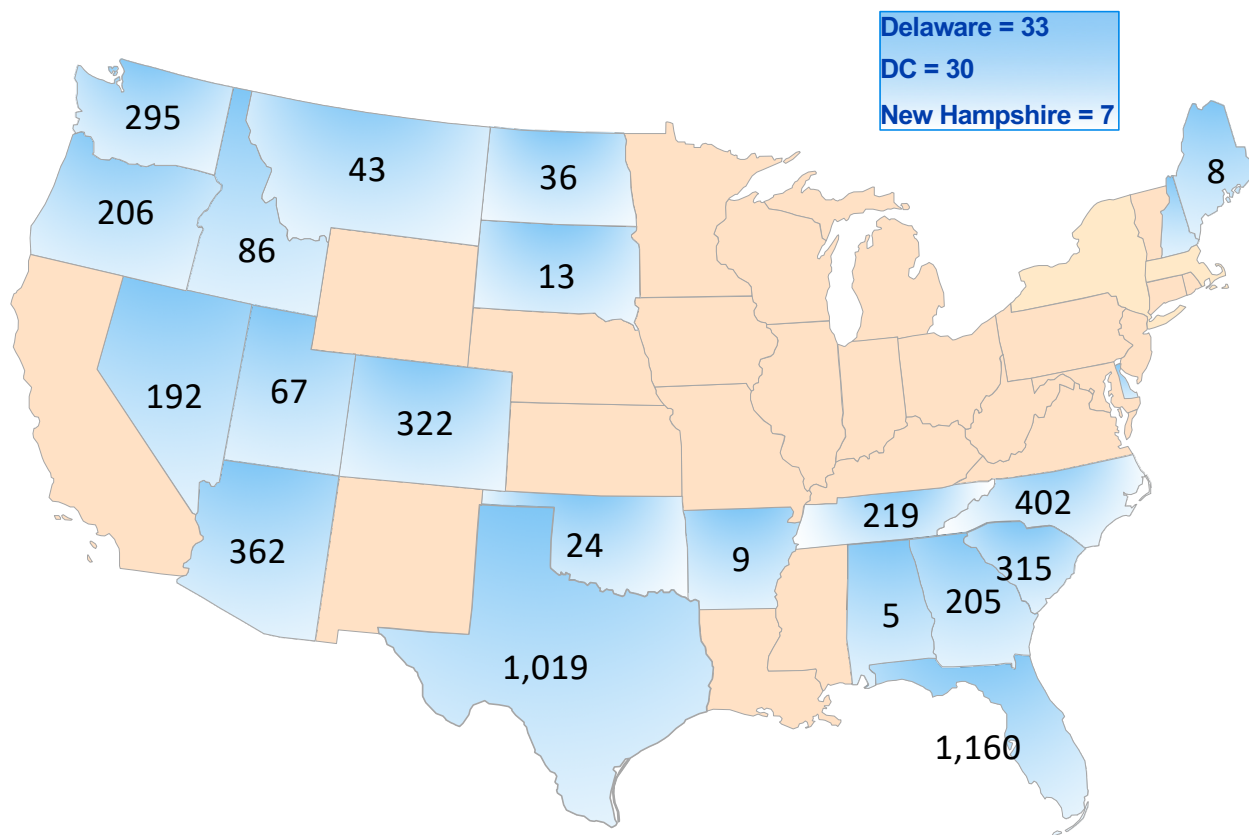


# 2010 – 2018 cumulative domestic net migration (000s)

# 23

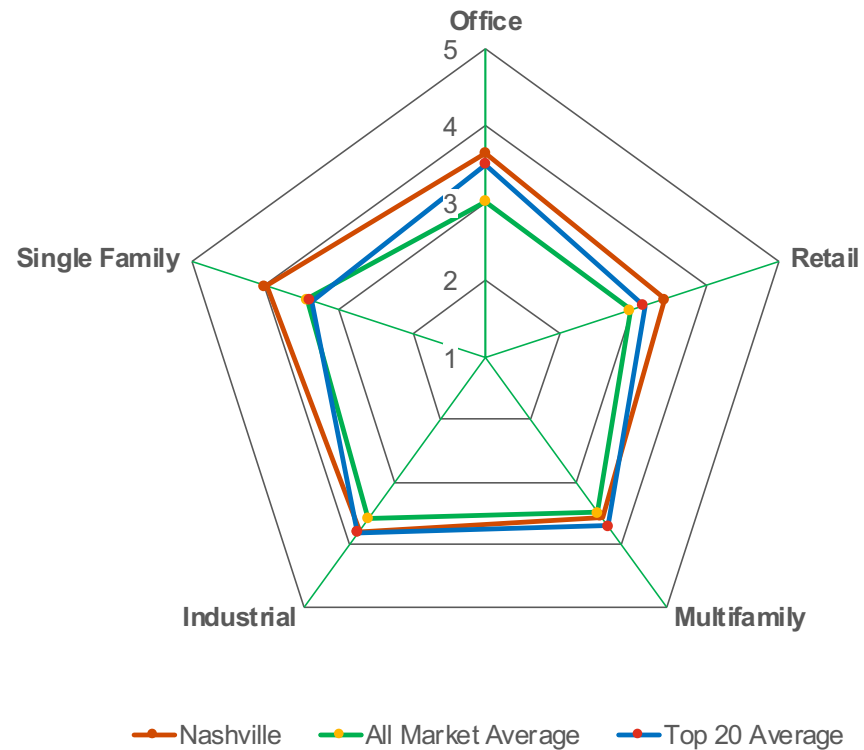
Number of states experiencing positive domestic net migration

- Geographically concentrated across the South and West
- Florida and Texas account for 43% of all positive net in migration
- The top 10 states account for 89% of all net in migration



# Deviation of local market outlook from survey averages by property type

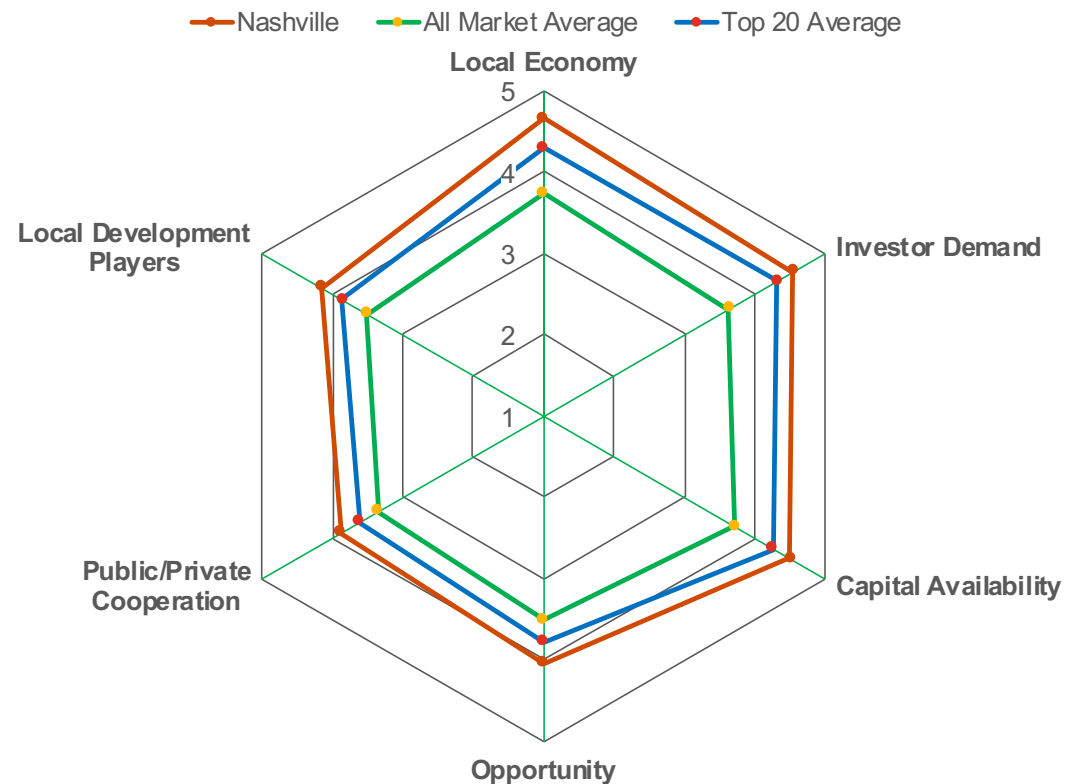
- *Scores show how markets are converging rather than diverging throughout this business cycle*
- *What a top 5 market looks like: Exceeds even the Top 20 average in outlook for all property types*





# Deviation of local market outlook from survey averages by market characteristics

- Not showing any signs of weakness in any category
- Only potential for improvement may be public/private cooperation, but then again that is found in all markets
- Where are the concerns?



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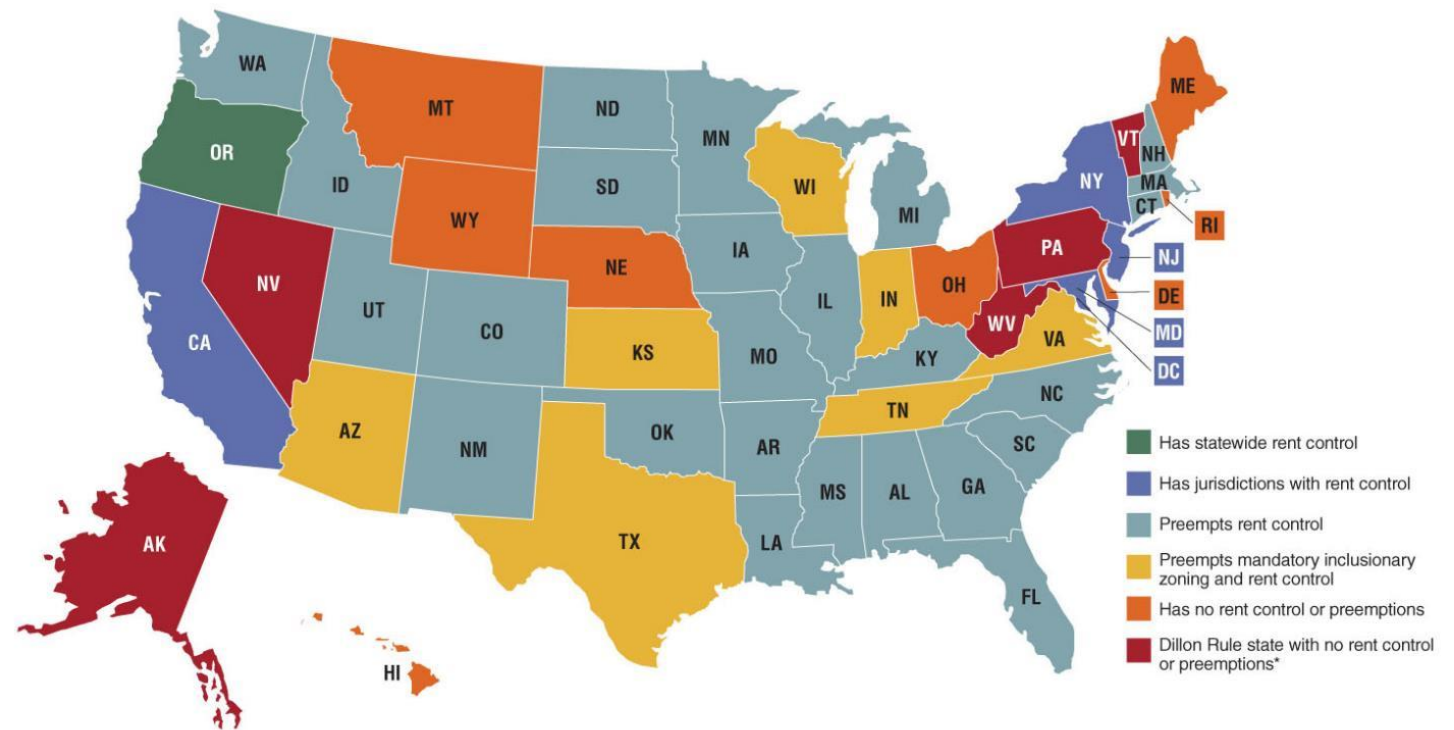
High growth or low growth, Southeast or Midwest, everyone is talking about some form of housing affordability

## Housing: The Great Unraveling



# 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



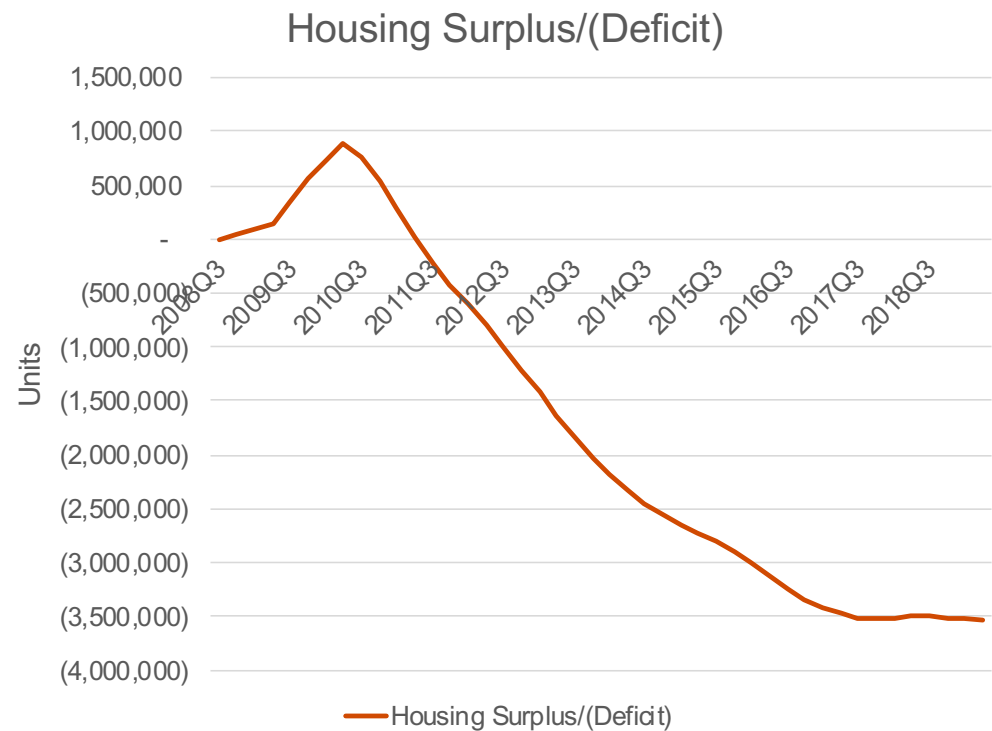
Source: National Multifamily Housing Council (NMHC).

\*The Dillon rule specifies that municipal governments can pass ordinances only in areas where the state government has granted clear authority to do so.

# 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



# “ Suburbs are becoming cool again

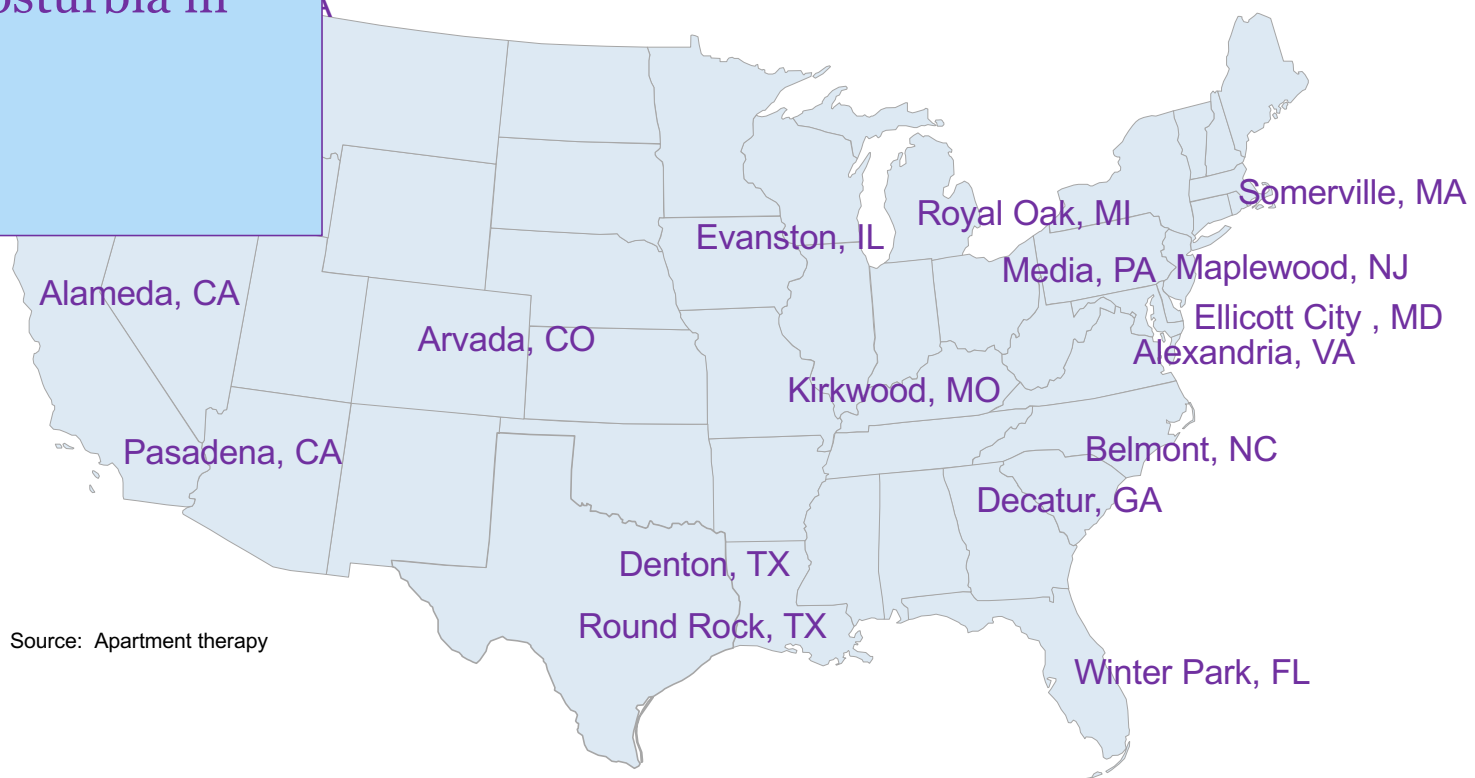
The expectation that Millennials would begin to move to the suburbs has become a reality. This generation however, is putting their own spin on the suburbs they are choosing.

- ❑ 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

Potential Hipsturbia in Nashville?



Source: Apartment therapy



“

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!



## 2019 *This Is What Happens In An Internet Minute*



# 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

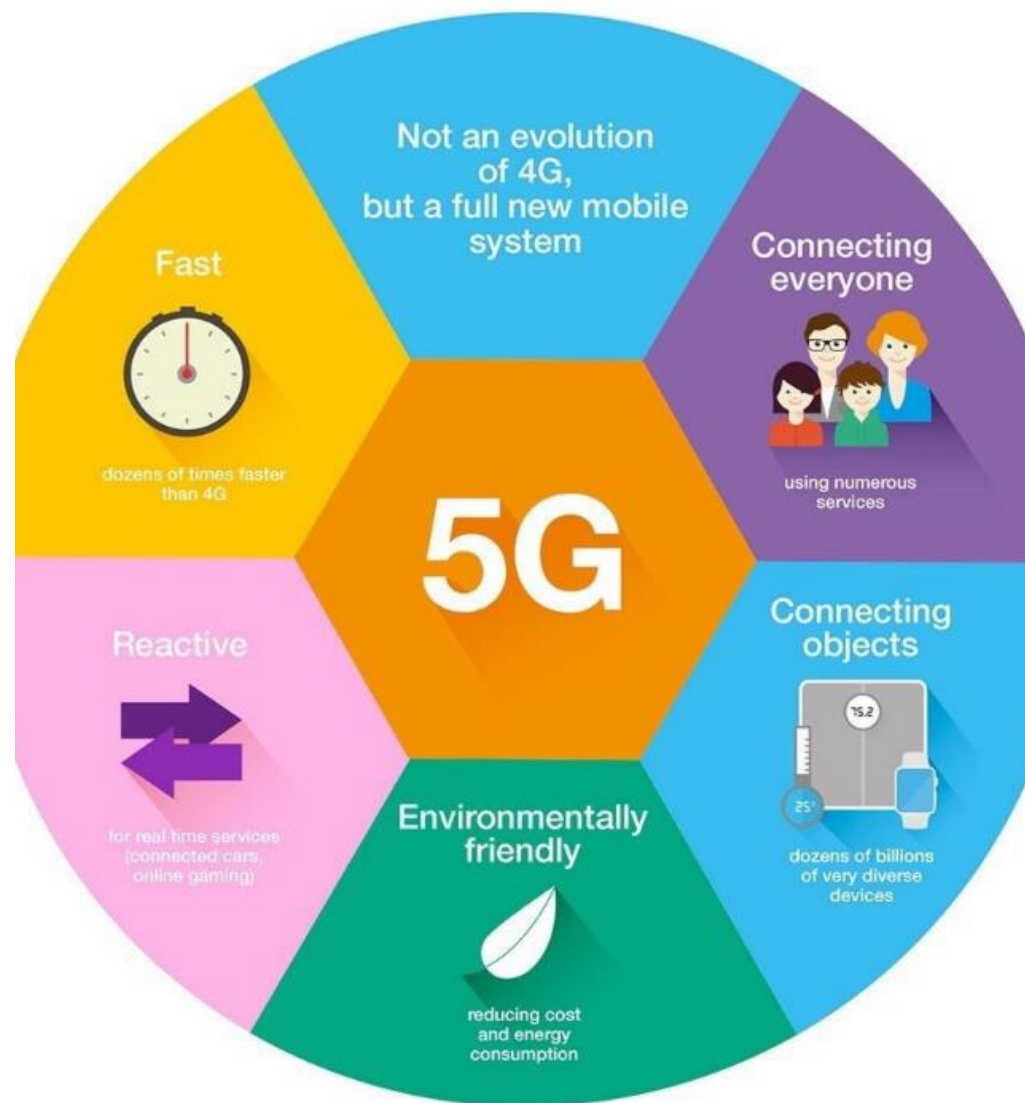


# Will 5G allow current and existing technologies to have a real impact?

## 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...



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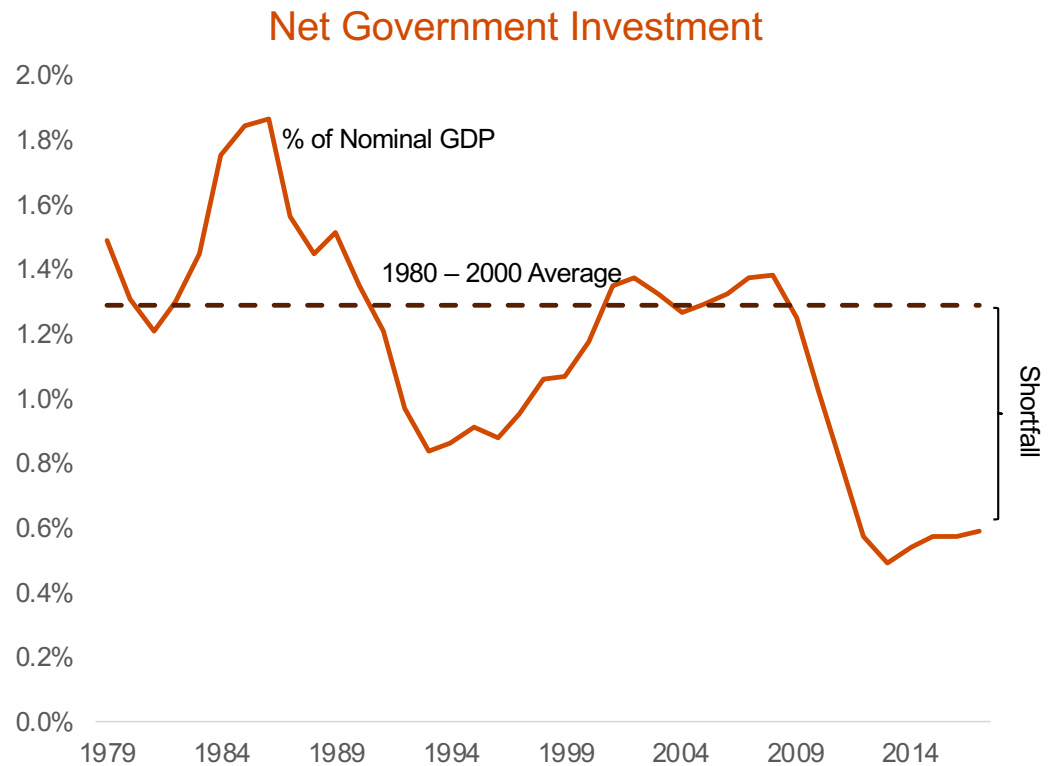
Cities that have invested  
in their infrastructure  
are clearly seeing an  
economic advantage



**Trend #10**  
**Washington stumbles; States  
and Cities pick up the ball**

# Government infrastructure investment

- ❑ **Government infrastructure investment has been below average since the American Recovery and Reinvestment Act**
- ❑ **The result has been a shortfall in spending of over \$100 billion a year**

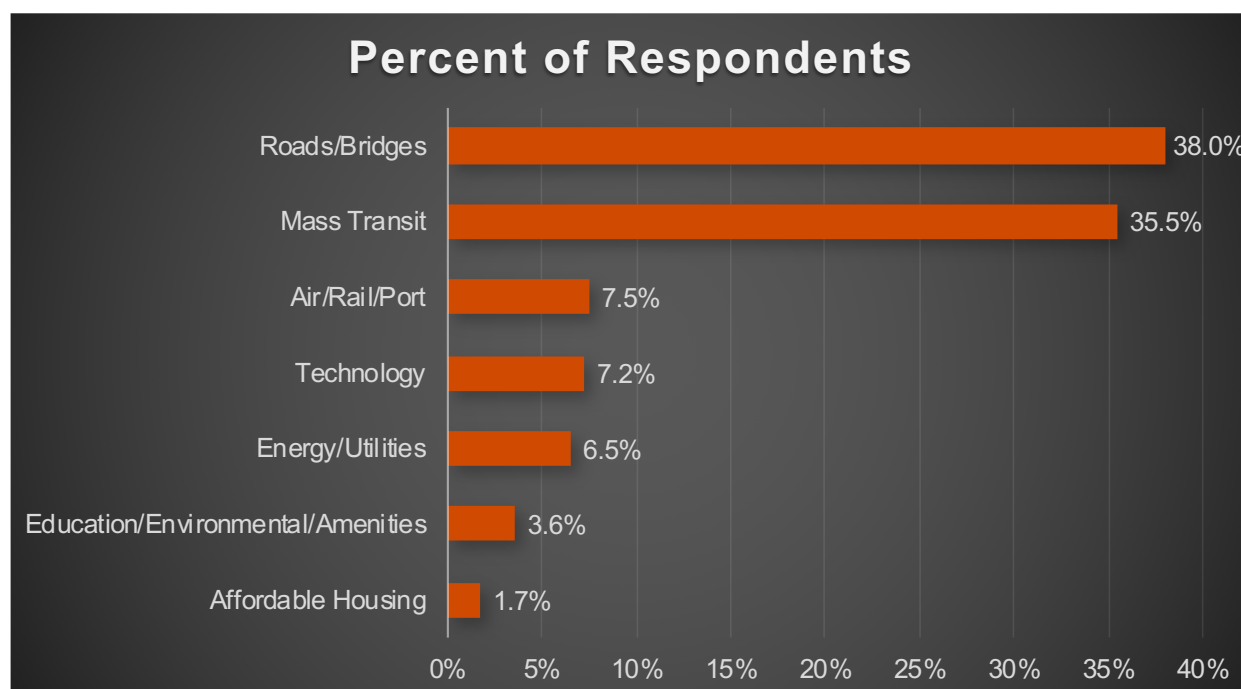


Source: BEA

# 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



# Not all projects require public funding

**SELECTED STRATEGIC US INFRASTRUCTURE PROJECTS**  
Source: CG/LA 2019

PROJECT	SPONSOR	STATUS	SECTOR	COST (USD \$ BILLION)
Detroit Capital Improvement Program	Detroit Water & Sewage Department	Planning	Water, Wastewater	\$0.50
Purple Line Extension	LA Metro	Construction	Mass Transit	\$2.80
The Gateway Program (Hudson Tunnel)	Port Authority of New York & New Jersey	Construction	Mass Transit	\$12.70
New England Clean Energy Connect	Central Maine Power	Planning	Energy	\$1.00
Chicago O'Hare Airport Expansion	Chicago Department of Aviation	Design	Aviation	\$8.70
AirTrain LaGuardia	MTA	Planning	Rail	\$1.50
Texas Central High Speed Rail	Texas Central Partners LLC	Procurement	Rail	\$15.00
Hell's Kitchen Lithium & Geothermal Project	Controlled Thermal Resources	Design	Energy	\$1.75
Las Vegas – California HSR	Brightline	Planning	Rail	\$7.00

*Several of the high speed rail (HSR) projects on the list are being undertaken by private ventures*

*Brightline is expanding rail service from Orlando to South Florida with a possible extension to Tampa*

*A similar project would link Las Vegas to Los Angeles*



Questions Feel free to contact me at:  
[Andrew.warren@pwc.com](mailto:Andrew.warren@pwc.com)

# Thank You!

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