

# Emerging Trends in Real Estate 2020

ULI Baltimore – Emerging Trends in Real Estate Trends 2020  
January 28, 2020



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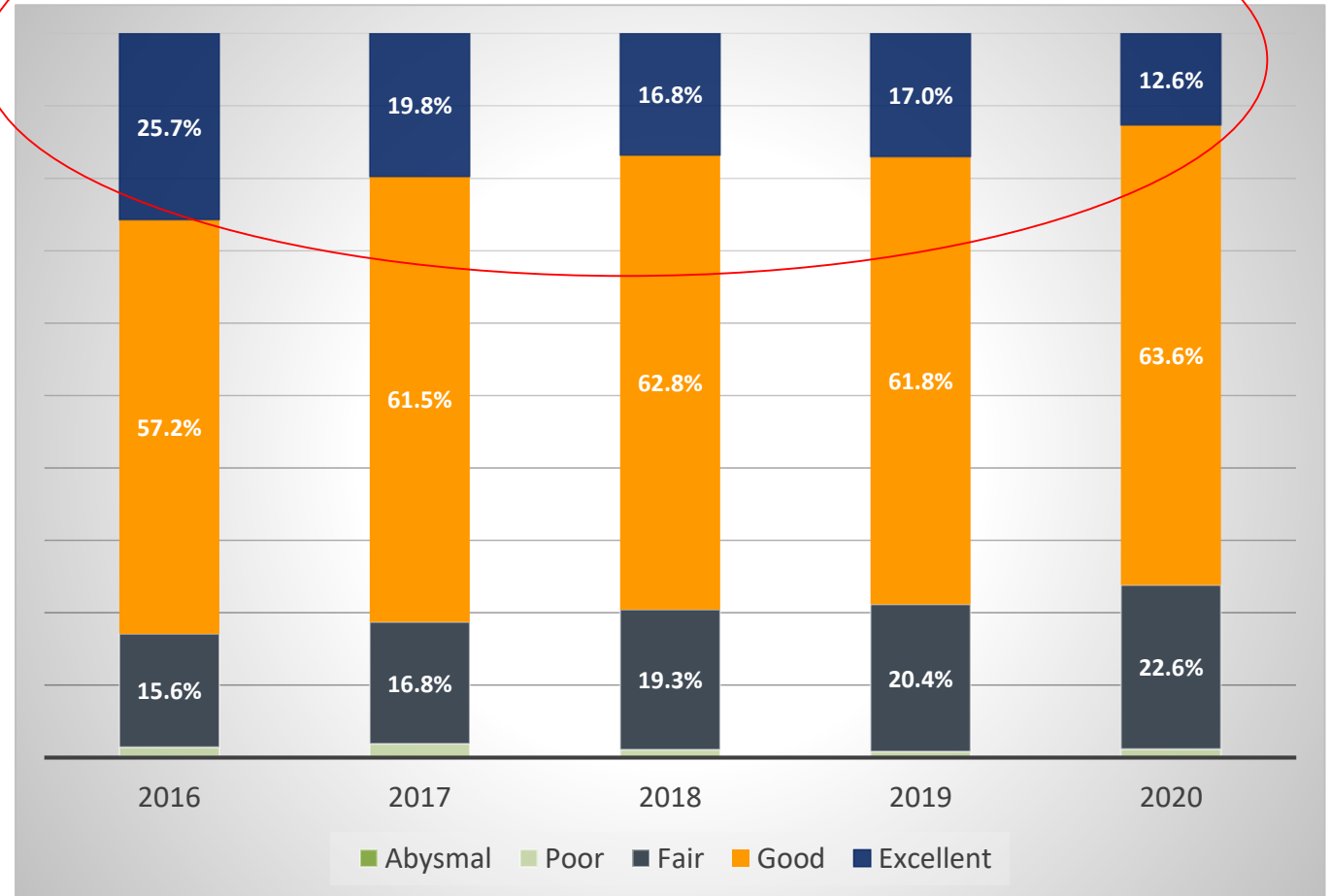
Market Sentiment; Still positive, but are we seeing some diversity in opinion?



# 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

23%

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

Higher

23%

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



“

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

Easing on down the road



# 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**

**2.0%**

**Baltimore  
average annual  
GDP growth  
over the next 5  
years**

# 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

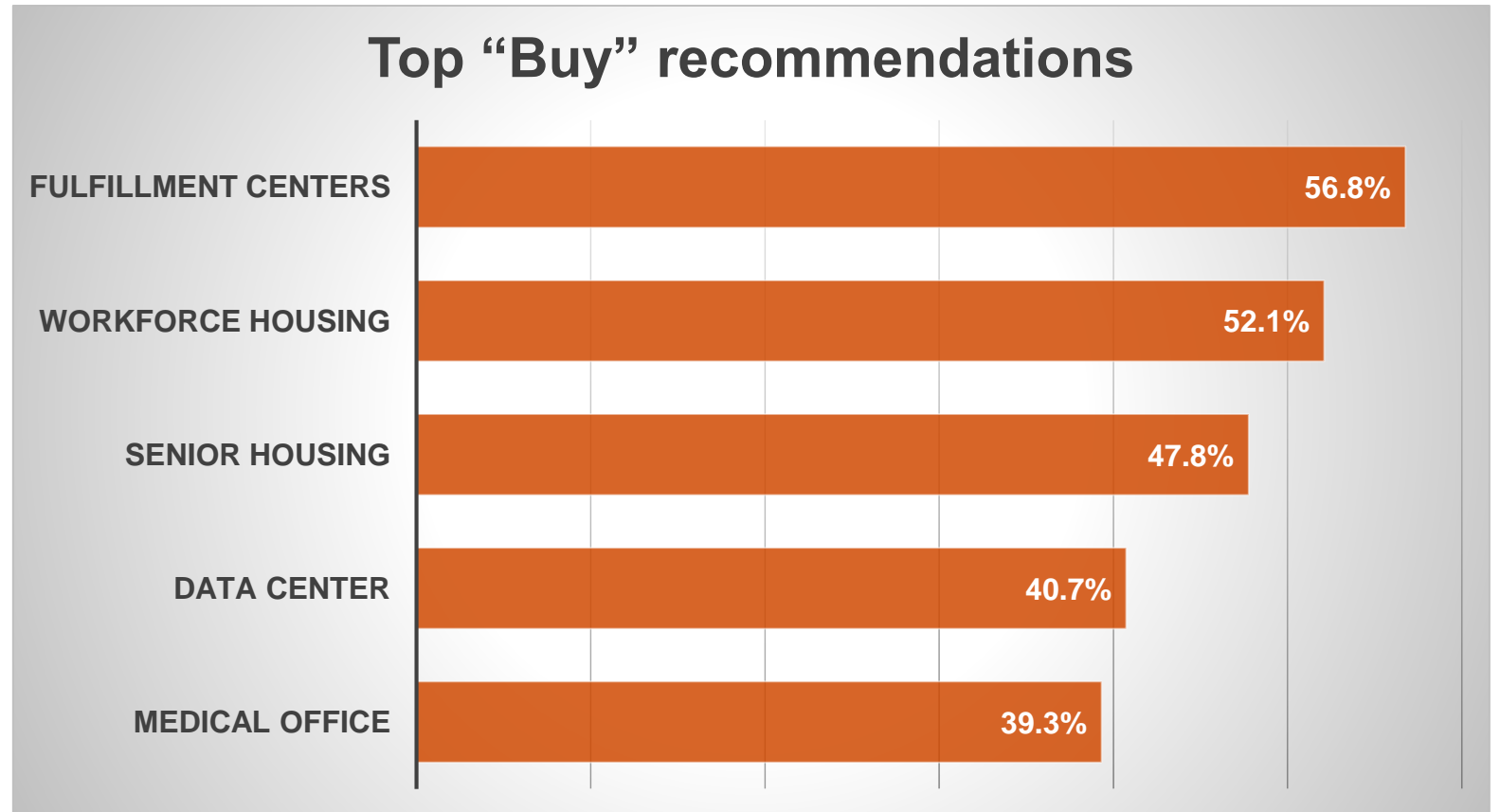
Exports

Imports

# 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*





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

The Siren Call of TINA

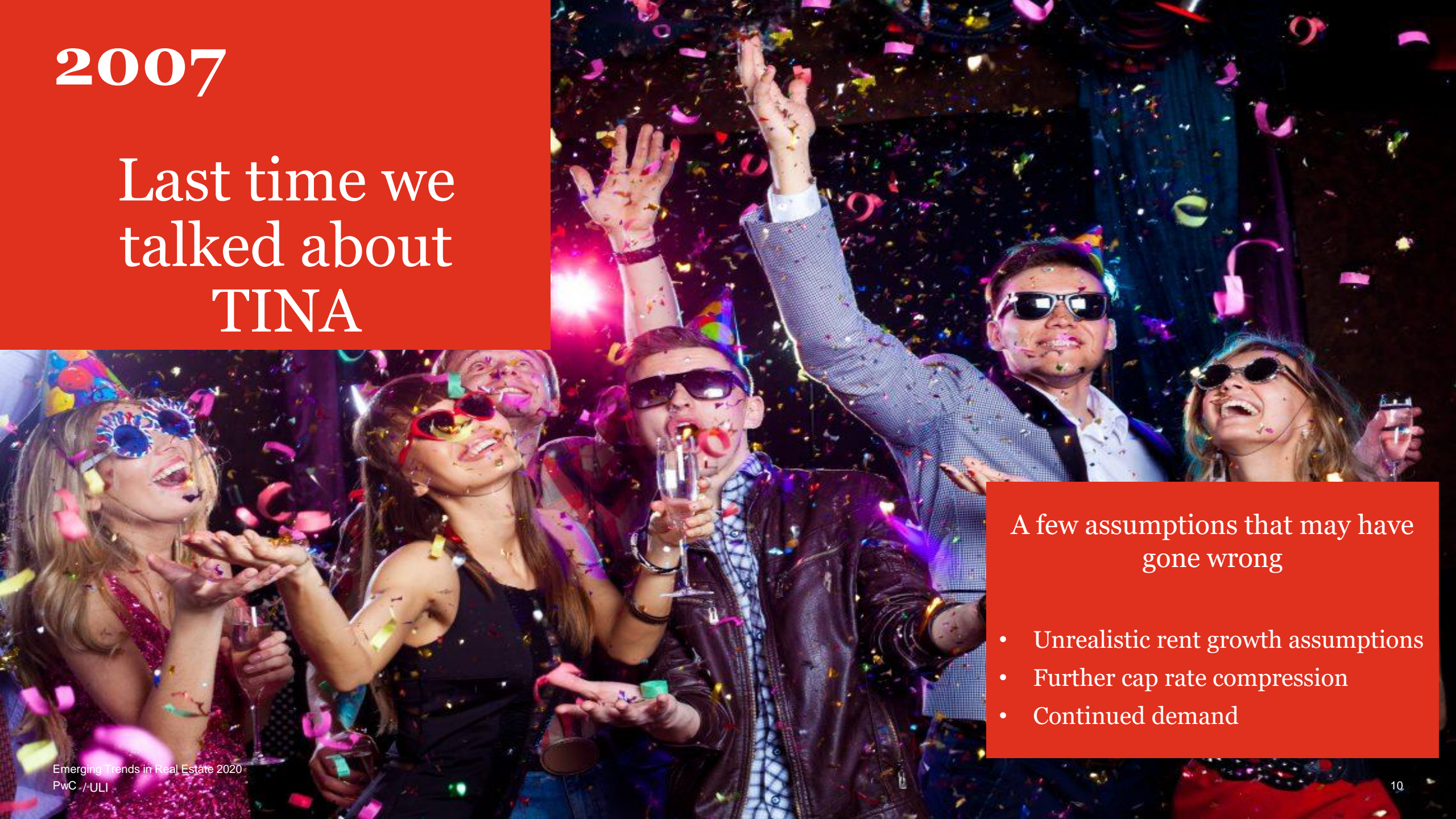
# ASSET ALLOCATION





# 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

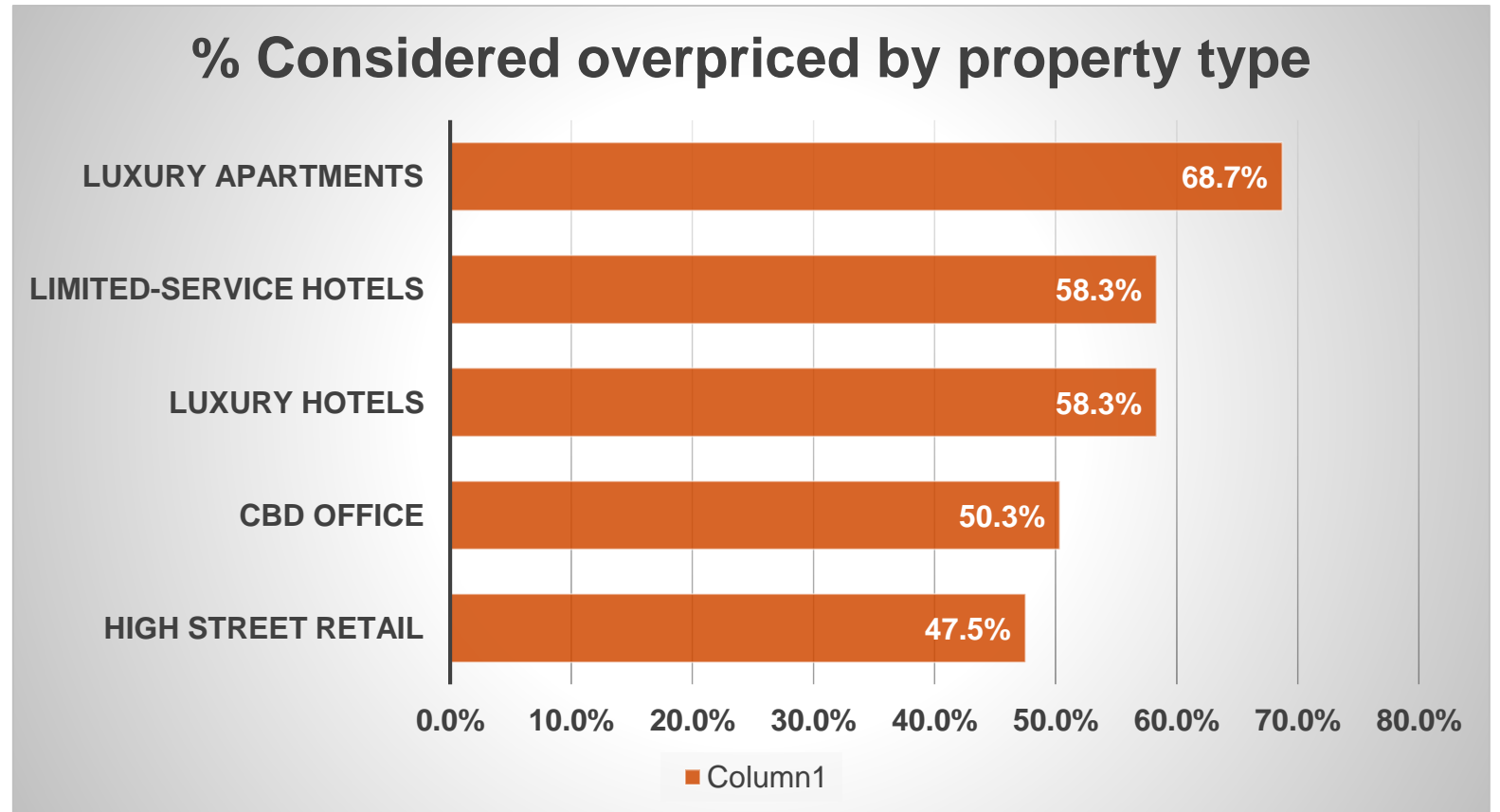
Lessons learned! Maybe we are a little more restrained this time around



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

# 57.5%

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





“ One size  
doesn’t fit  
all

## Market Menu

### Top 20 Markets for 2020

*A rising number of choices appealing to many appetites*

Market Price

### Major Capital Magnets

*Old favorites that we keeps us coming back*

Seasonal

### Determined Competitors

*Familiar choices that may hide a hidden kick*

Mixed Pricing

### Aligning Expectations

*Choices that are delivering what they promise*

Fair Pricing

### Treasures Ripe for Discovery

*An oyster with a pearl or tomorrow’s favorite today*

Mixed Pricing

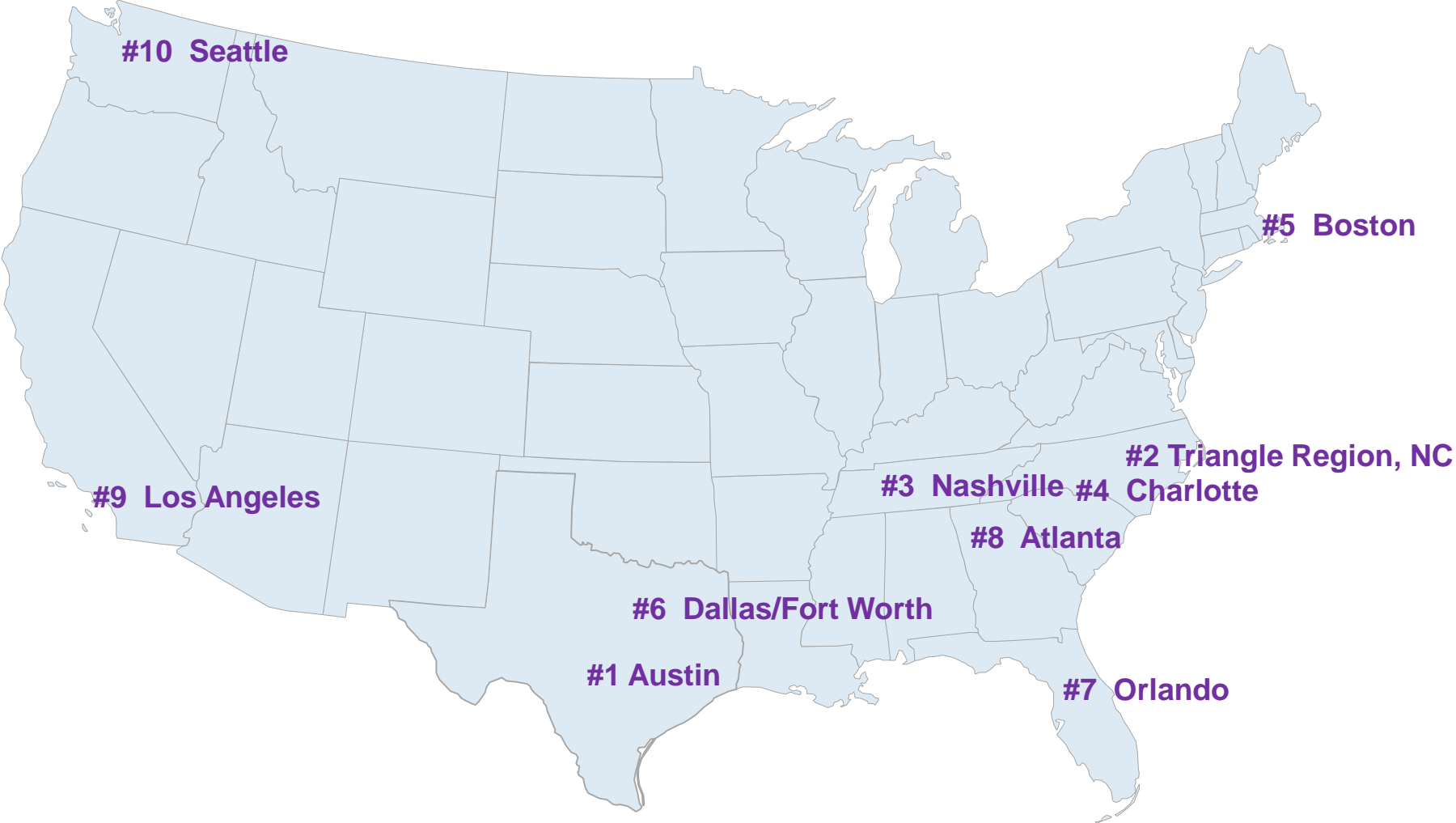
### Potpourri: Thrifty Choices, Boutiques, and Special Situations

*You may be pleasantly surprised what you’ll find*

Ala Carte

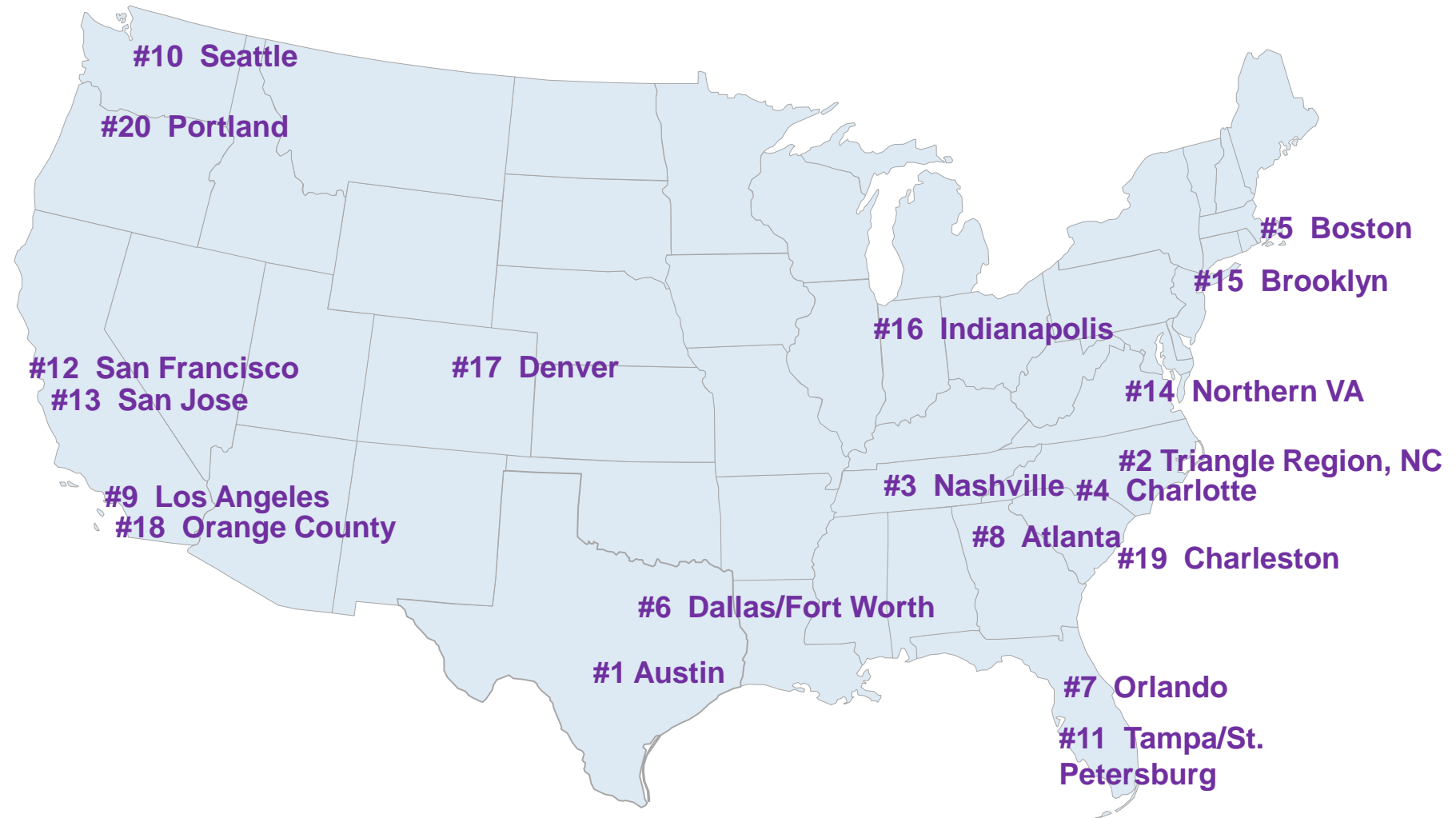
# Top 10 Markets

☐ Heavily weighted toward growth and the Southeast



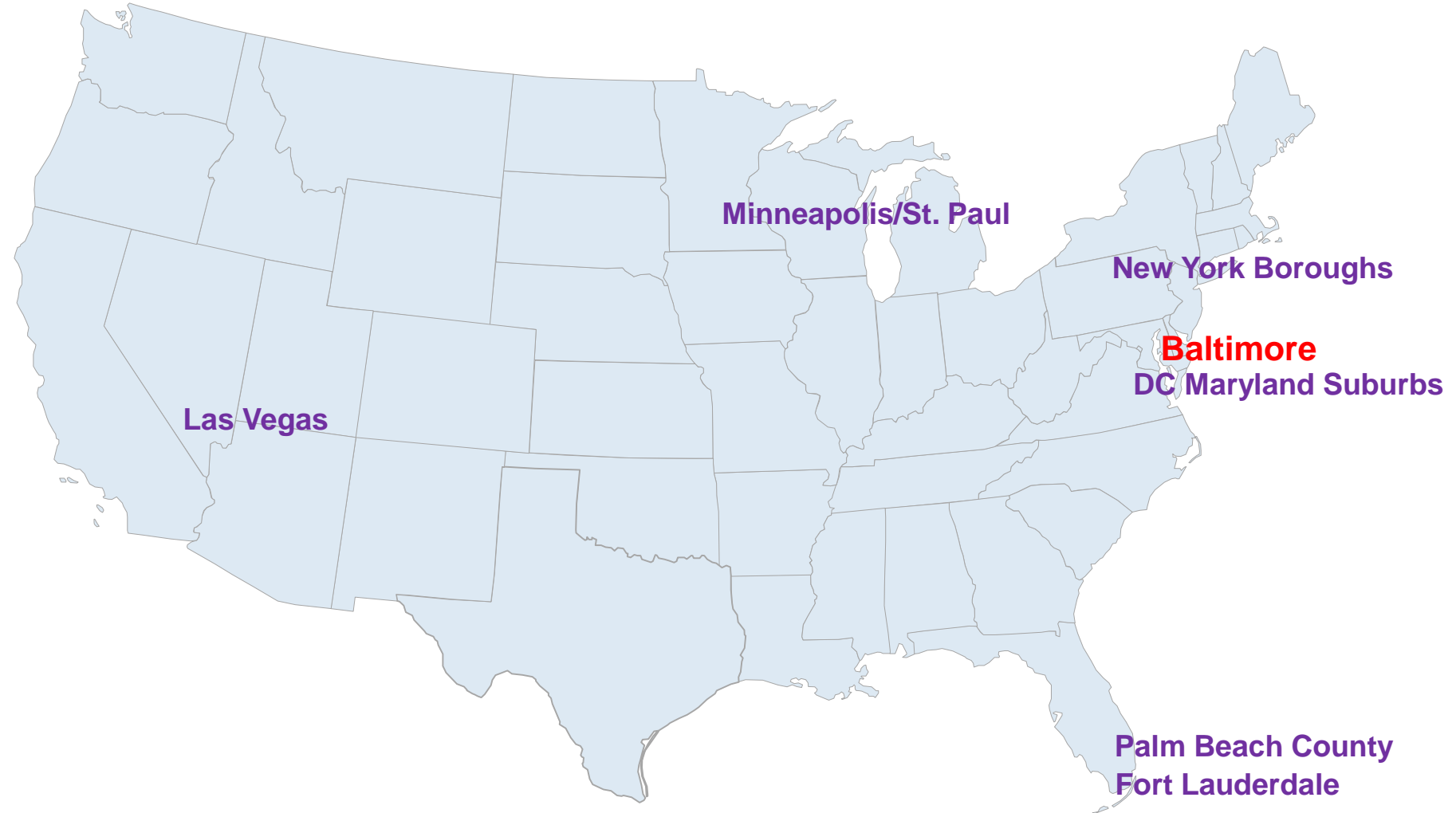
# Top 20 Markets

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



# Determined Competitors

- ❑ Punching above their weight
- ❑ Percent of investment trending upward
- ❑ Often adjacent to top 20 or capital magnet markets





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

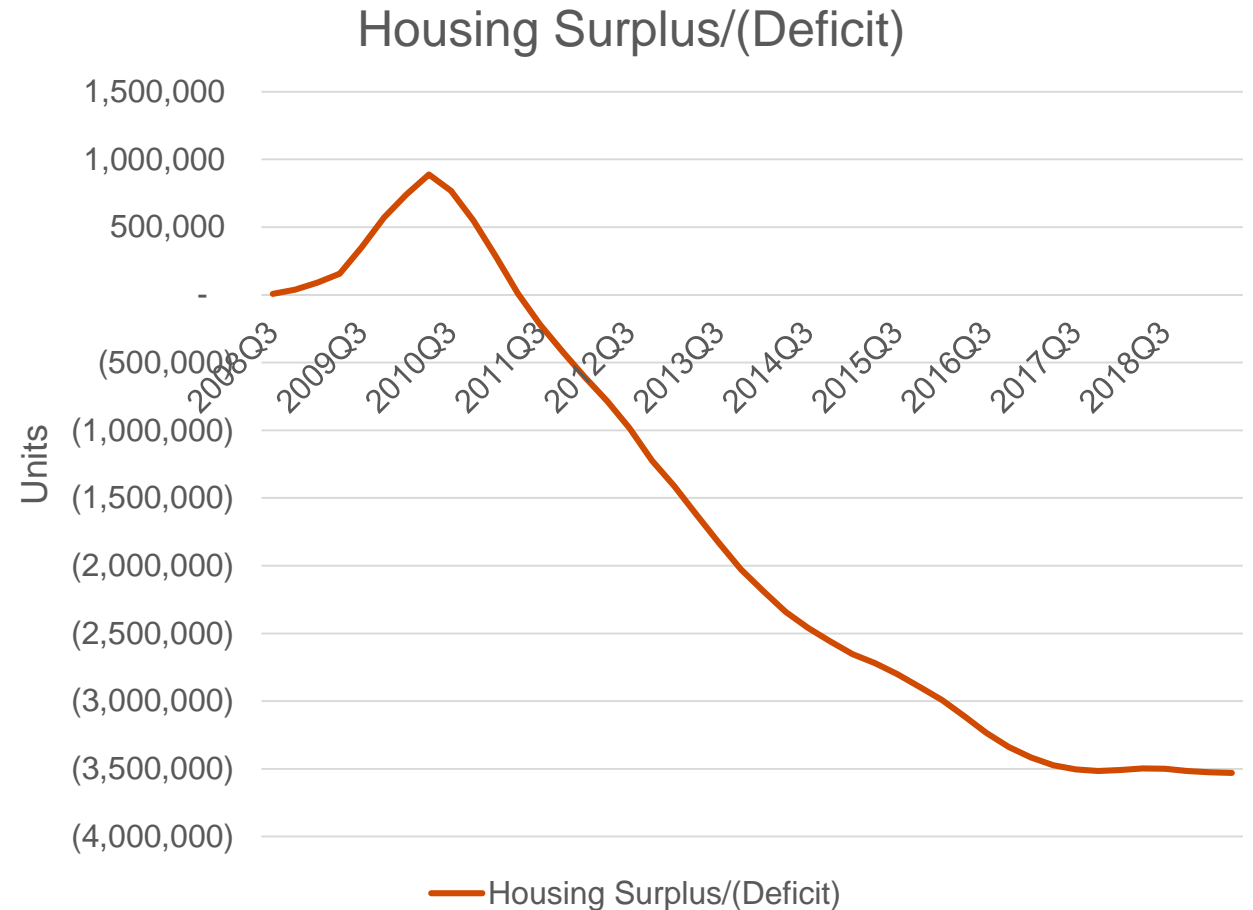
## Housing: The Great Unraveling



# 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

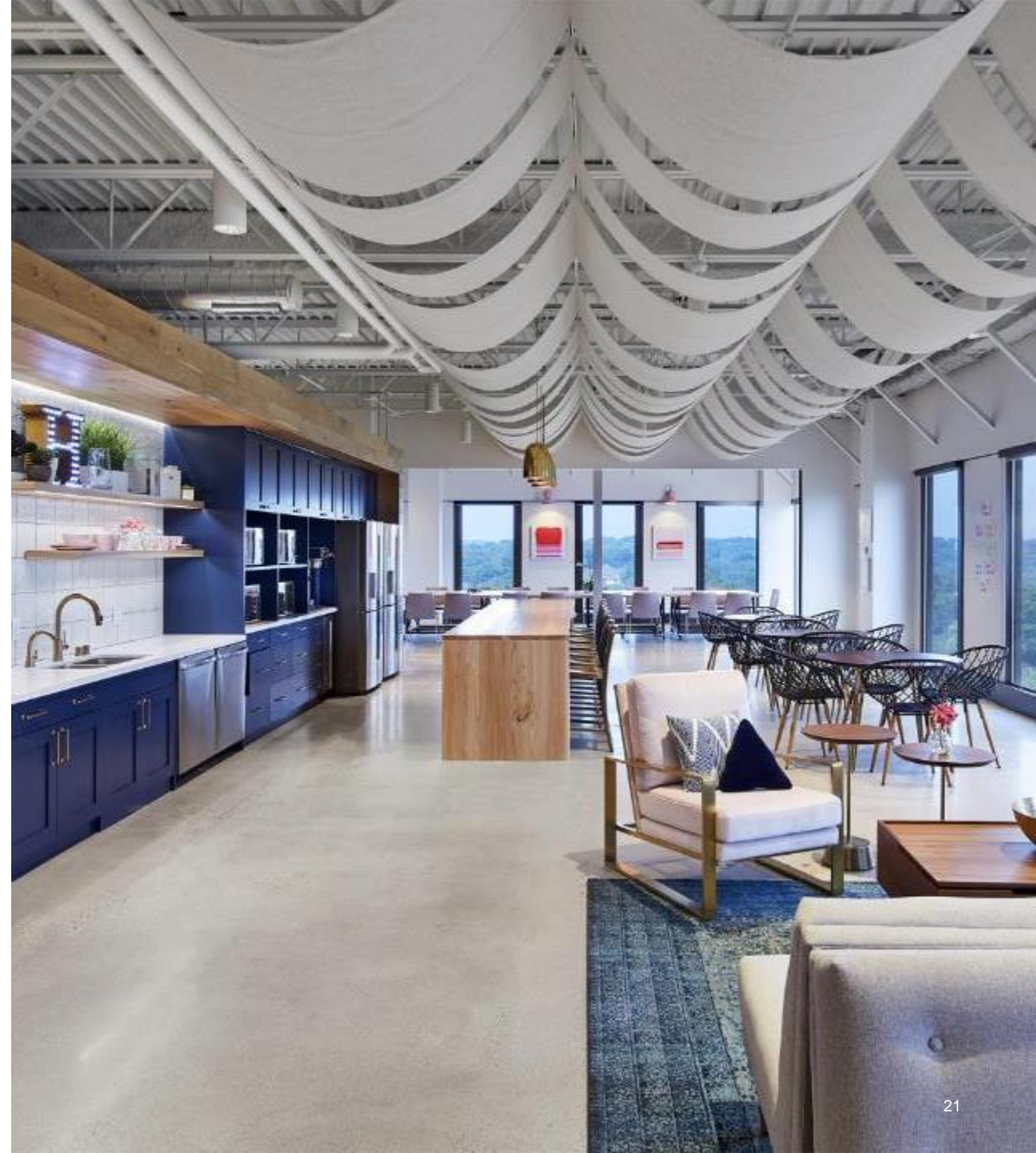


# It is all about work process

## 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**

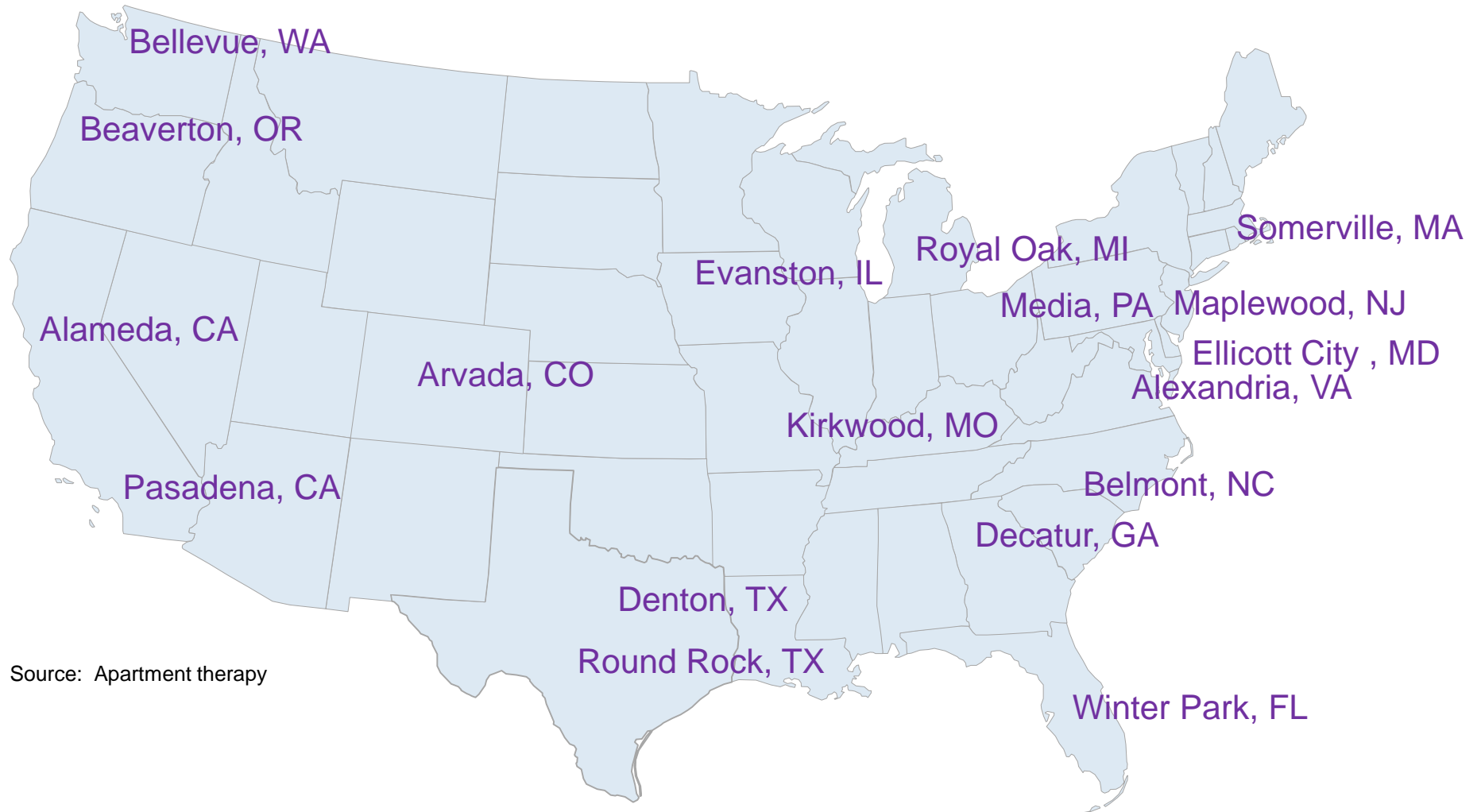
# “ Suburbs are becoming cool again

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

Hipsturbia

# Cool Suburbs



Source: Apartment therapy



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Sustainable and green building has been so successful, that ESG just seems like the natural progression of these ideals



**ESG a Sustainable Trend**

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The ultimate goal of implementing technology is to make the whole equal more than the sum of the parts



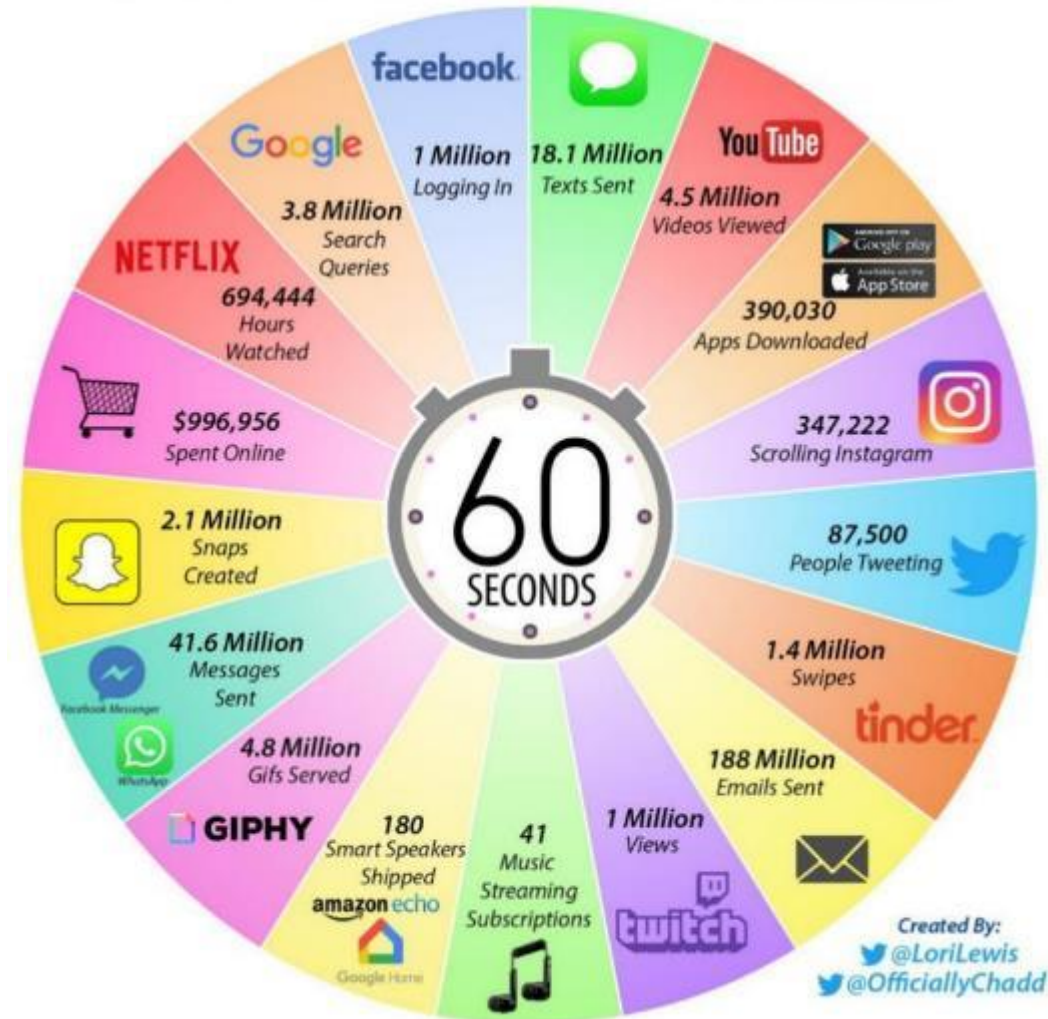
The March of Technology



# We continue to generate more data every year!



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



# How technology is being used today

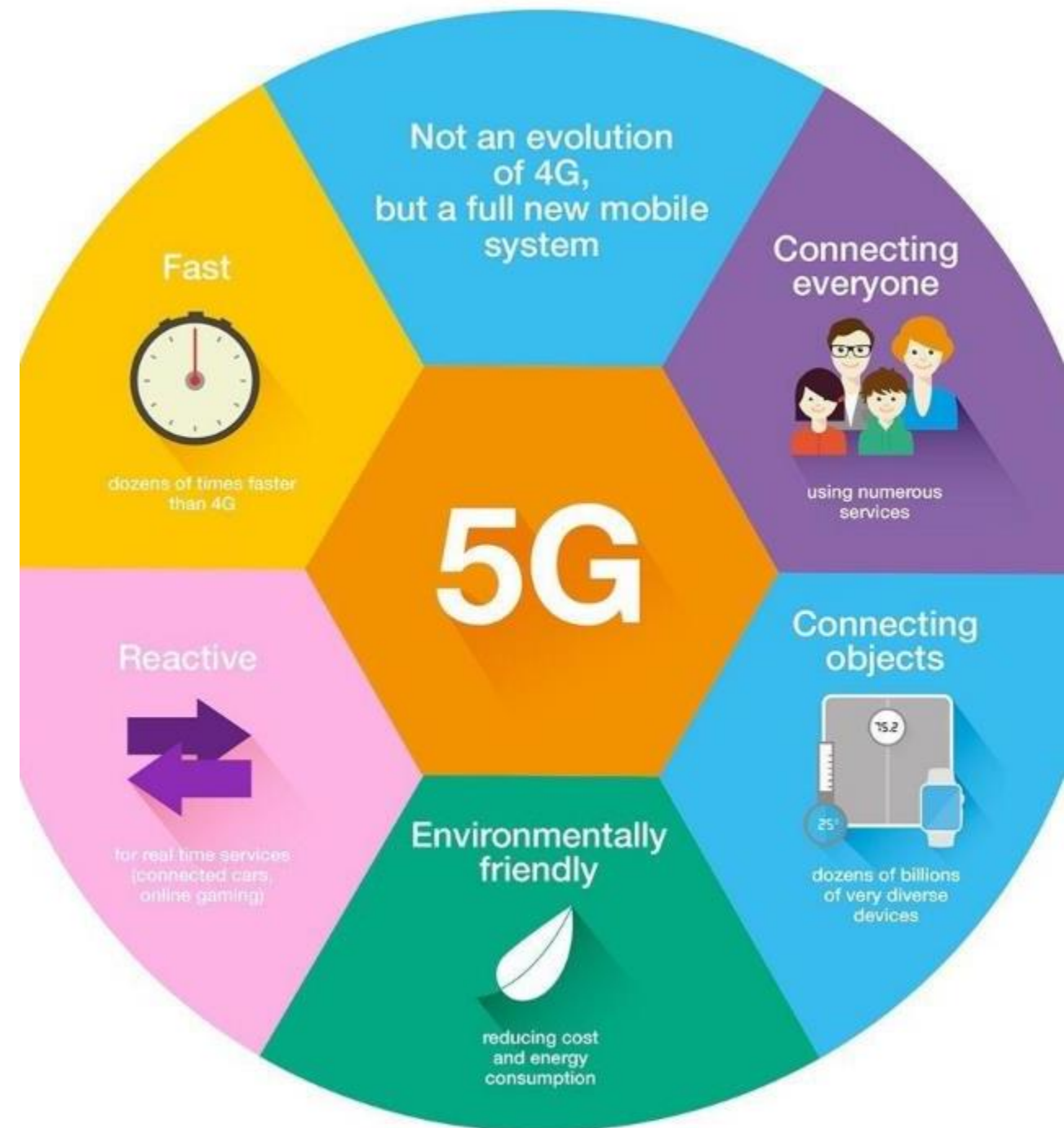


# Will 5G allow current and existing technologies to have a real impact?

## 5G will enhance speed and reliability

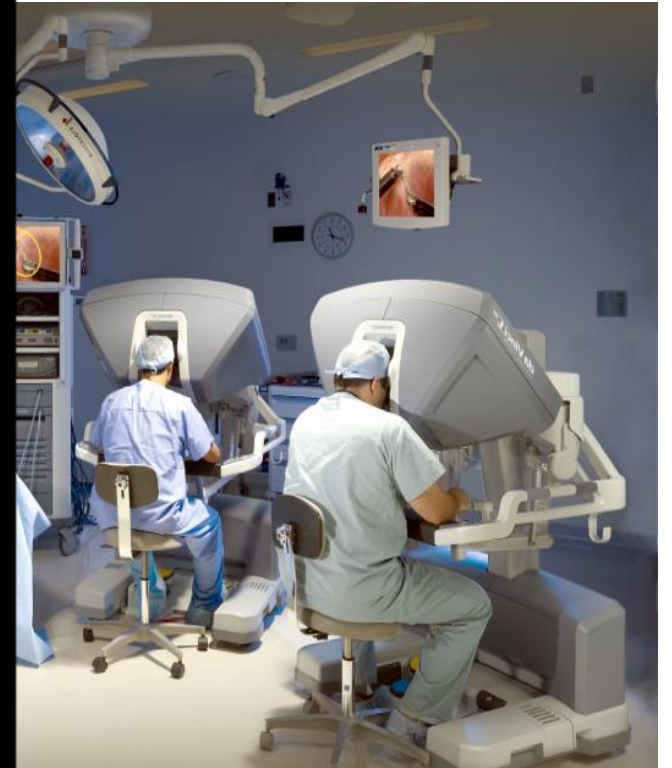
The increased speed and latency provided by 5G will make a number of technologies viable

- 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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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

Questions Feel free to contact me at:  
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[ULI.org/ET20](http://ULI.org/ET20)

Or

[PwC.com/us/etre](http://PwC.com/us/etre)

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