Emerging Trends in Real Estate 2020
Market Sentiment; Still positive, but are we seeing some diversity in opinion?
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

- Economy – 36%
- Fundamentals – 29%
- Government – 14%
- Capital markets – 11%
- Strategy shift – 5%

- Strategy shift – 28%
- Fundamentals – 28%
- Internal changes – 22%
- Economy – 16%
- Capital markets – 6%
Let’s not talk ourselves into a recession, but we do need to keep an eye on the possibility
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...
What property types do survey respondents think will be winners in 2020?

Average percent of survey respondents that recommend either buying or holding in 2020:

- **FULFILLMENT CENTERS**: 56.8%
- **WORKFORCE HOUSING**: 52.1%
- **SENIOR HOUSING**: 47.8%
- **DATA CENTER**: 40.7%
- **MEDICAL OFFICE**: 39.3%
The flow of capital into real estate is both a blessing and a curse.

The Siren Call of TINA
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
### Market Menu

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

"One size doesn’t fit all"
Top 10 Markets

- **#1 Austin**
- **#2 Triangle Region, NC**
- **#3 Nashville**
- **#4 Charlotte**
- **#5 Boston**
- **#6 Dallas/Fort Worth**
- **#8 Atlanta**
- **#7 Orlando**
- **#9 Los Angeles**
- **#10 Seattle**

- Heavily weighted toward growth and the Southeast

Emerging Trends in Real Estate 2020
PwC / ULI
Top 20 Markets

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

Emerging Trends in Real Estate 2020
PwC / ULI
Determined Competitors

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

Emerging Trends in Real Estate 2020

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

ULI
Cool Suburbs

Source: Apartment therapy
Sustainable and green building has been so successful, that ESG just seems like the natural progression of these ideals.
“
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!
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...
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

ULI.org/ET20
Or
PwC.com/us/etre

Questions  Feel free to contact me at:
andrew.warren@pwc.com

© 2019 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.