

Emerging Trends in Real Estate 2021

ULI Baltimore Emerging Trends in Real Estate 2021

January 28, 2021



Dealing

with

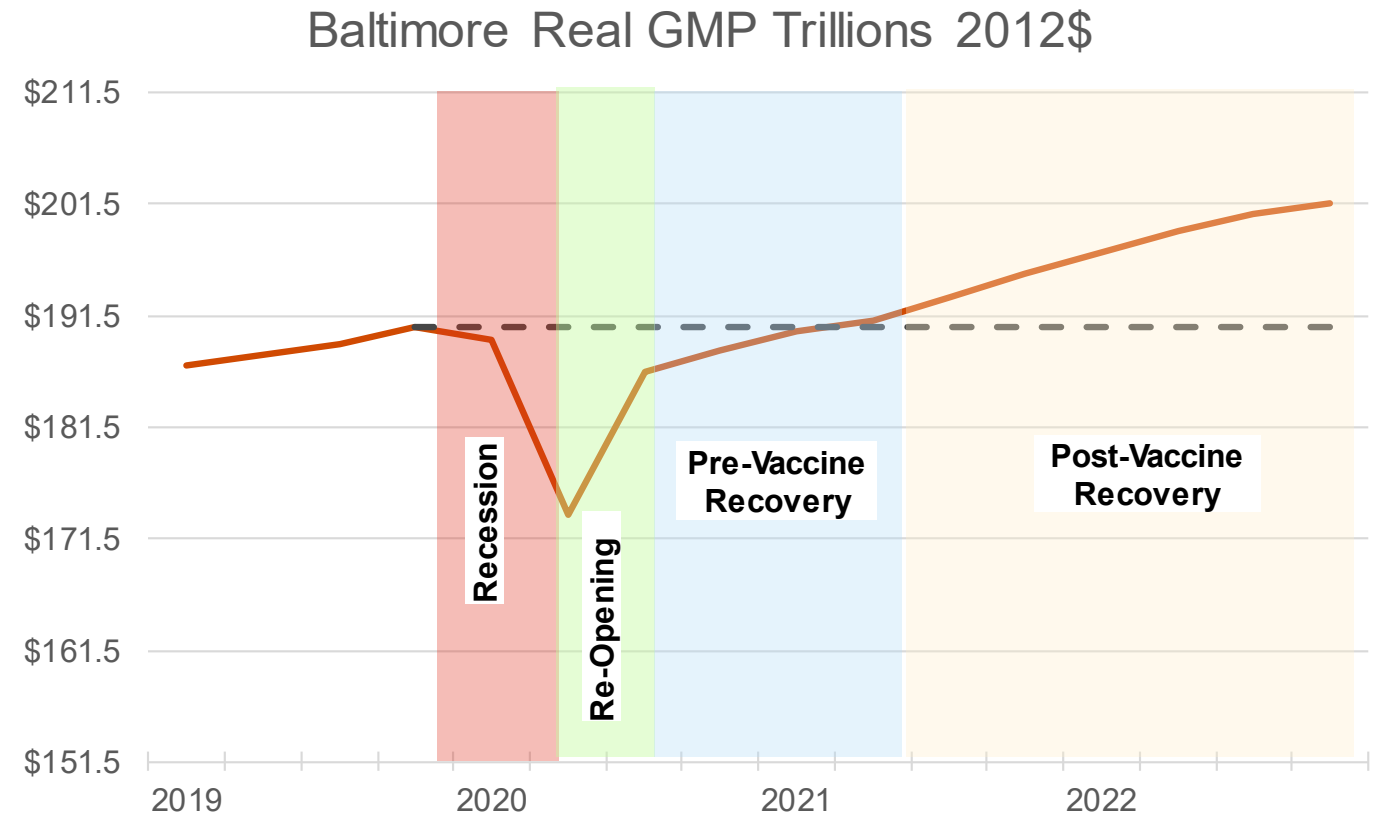
Certain

Uncertainties

The Economy Stumbles: Real estate has the potential to hang on

The Economy

- Unprecedented mandated recession impacted population and businesses unevenly
- Federal Reserve monetary support has put a floor under asset prices
- Capital still available for real estate
- Pace of the recovery will be key to the real estate sector
- Confidence will be needed for full recovery
- Employment recovery may be uneven



Sources: US Bureau of Economic Analysis, IHS Markit

Real Estate and the new Administration: Potential opportunities and challenges

Additional COVID Relief

- “America Rescue Plan” a \$1.9T relief package

Infrastructure

- “Build back Better Plan”

Affordable Housing

- 10 – year \$640B plan to increase the stock of affordable housing

Immigration Reform

- Reform needed to raise immigration levels above 2020’s 600,000

SALT Deduction

- Restore SALT deduction from current \$10k limit

1031 Exchange

- Elimination of the 1031 exchange benefit for anyone with income over \$400k

Capital Gains Tax

- Proposed increase in capital gains tax rate

Opportunity Zones

- Increased oversight and enhanced proof of economic benefit

Increased Oversight

- Higher level of oversight on the shadow lending industry by FSOC

Corporate and Individual Taxes

- Proposed increase in tax rates for corporations and individuals with income over \$400k

Accelerated
trends or
fundamental
changes

Work from Home: Attitudes are changing

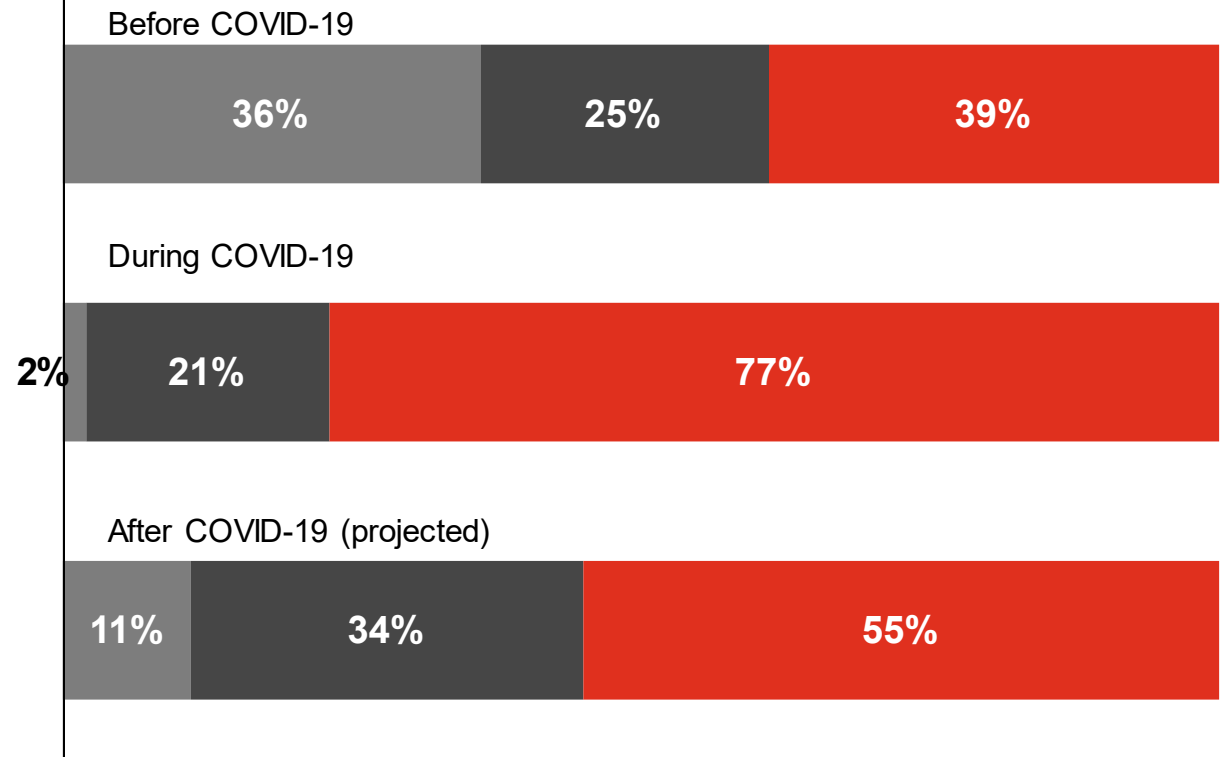


Work from home (WFH)

- Work from home experiment has changed attitudes toward remote working - *“working is working no matter where you are”*
- In the short term has led to rising productivity, but will gains be sustainable over a longer-term?
- Office is still going to be relevant, but role may evolve to meet different needs

What percent of your office employees do you anticipate will work remotely at least one day a week?

■ Few (0 - 29%) ■ Many (30 - 59%) ■ Most (60 - 100%)



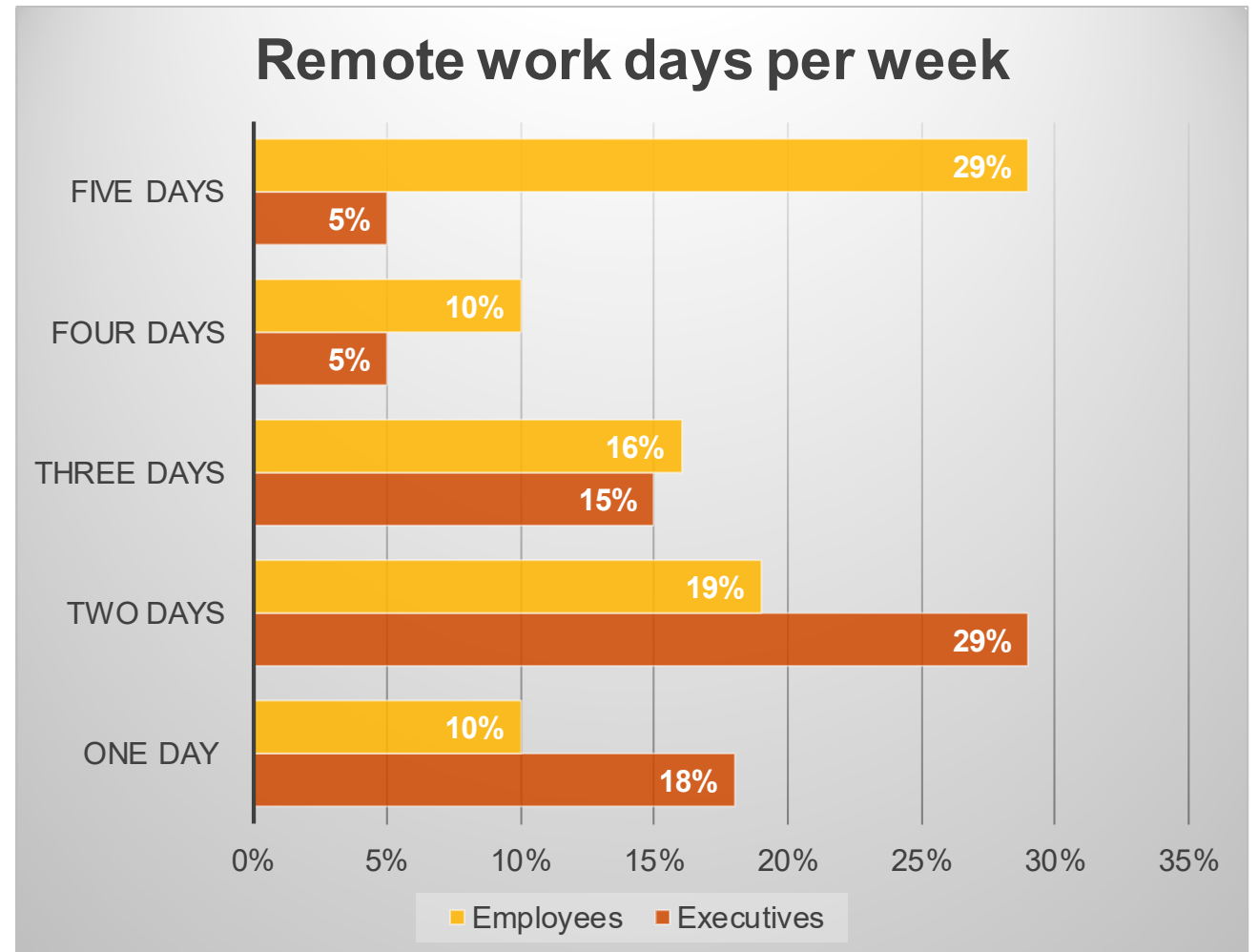
Source: PwC US Remote Work Survey, June 25, 2020

Future remote work plans

Executives and employees may have different plans

- *Executives feel time in the office is needed to maintain culture*
- *Employees are focused on flexibility – more than 50% favor working remotely at least 3 days a week*
- *Future will depend on role and company*

Source: PwC US Remote Work Survey
January 12, 2021. Base: 1,200 US office workers



The Great American Move

Flexibility increases choices



The great American Move

- WFH has increased flexibility about where employees can live
- Ongoing trend toward sunbelt 18-hour cities has accelerated during the pandemic
- Permanent move to retirement/vacation homes
- City to suburb dynamics have also changed with suburbs even more attractive – *“willing to commute further, if you don’t have to do it every day”*

Inflow

Market	# of HHs	% Change from 3 rd Qtr	Market of Origin
Austin	10,268	148%	San Francisco
Las Vegas	9,467	67%	Los Angeles
Phoenix	9,414	45%	Los Angeles
Sacramento	9,283	62%	San Francisco
Dallas	8,017	133%	Los Angeles

Outflow

Market	# of HHs	% Outside of Metro	Destination
New York	43,765	35.4%	Philadelphia
San Francisco	41,741	25.1%	Sacramento
Los Angeles	24,139	18.1%	San Diego
D.C.	12,417	13.3%	Salisbury, MD
Chicago	6,163	12.5%	Los Angeles

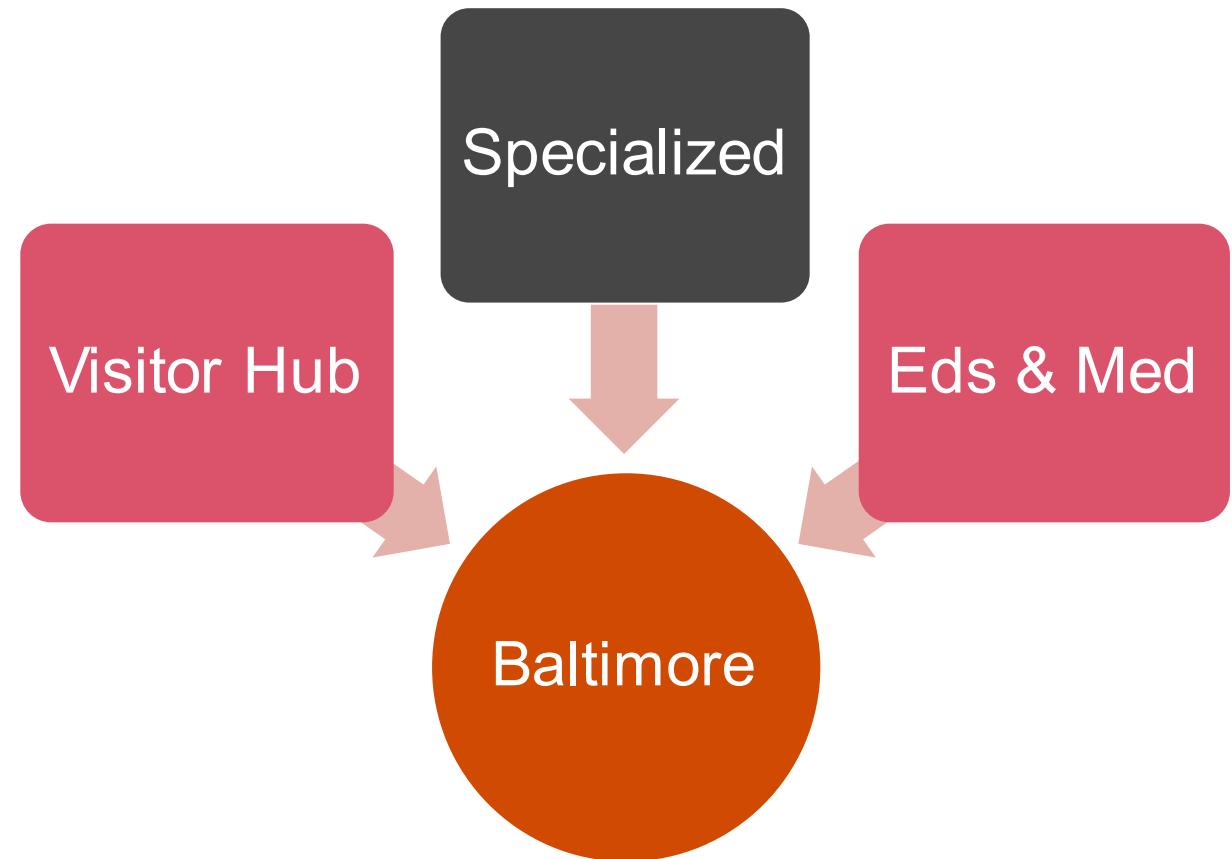
Households looking to relocate in 4th Quarter 2020

Source: Data provided by Redfin, a national real estate brokerage.

Market categories relevant to Baltimore – Sometimes it takes more than one

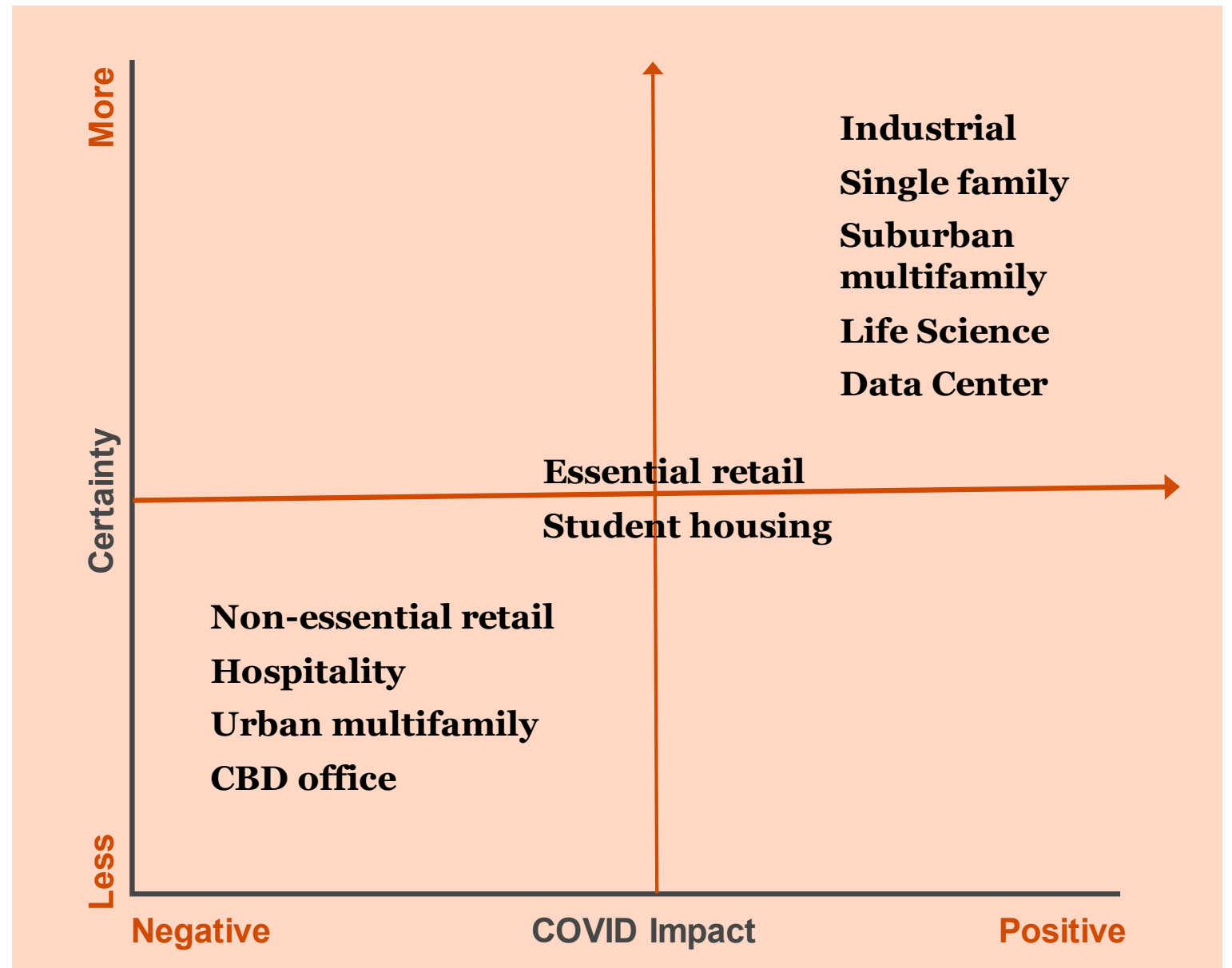
Trends influencing markets

- 18 Hour cities continue to dominate the top 10
- Work from home and great American move have made these markets more attractive. It may now be possible to live in a lower cost location and still work remotely
- The increase in the attractiveness of suburban living due to a desire for less dense living is also influencing the top markets.
- Negative impact of pandemic on Gateway markets has increased interest in other tier locations



Divergent outlooks

- Pandemic has had an unequal impact on the current property type outlook
- The uncertainty around the pace of the recovery raises different questions around each sector
- Investor interest will impact future valuations



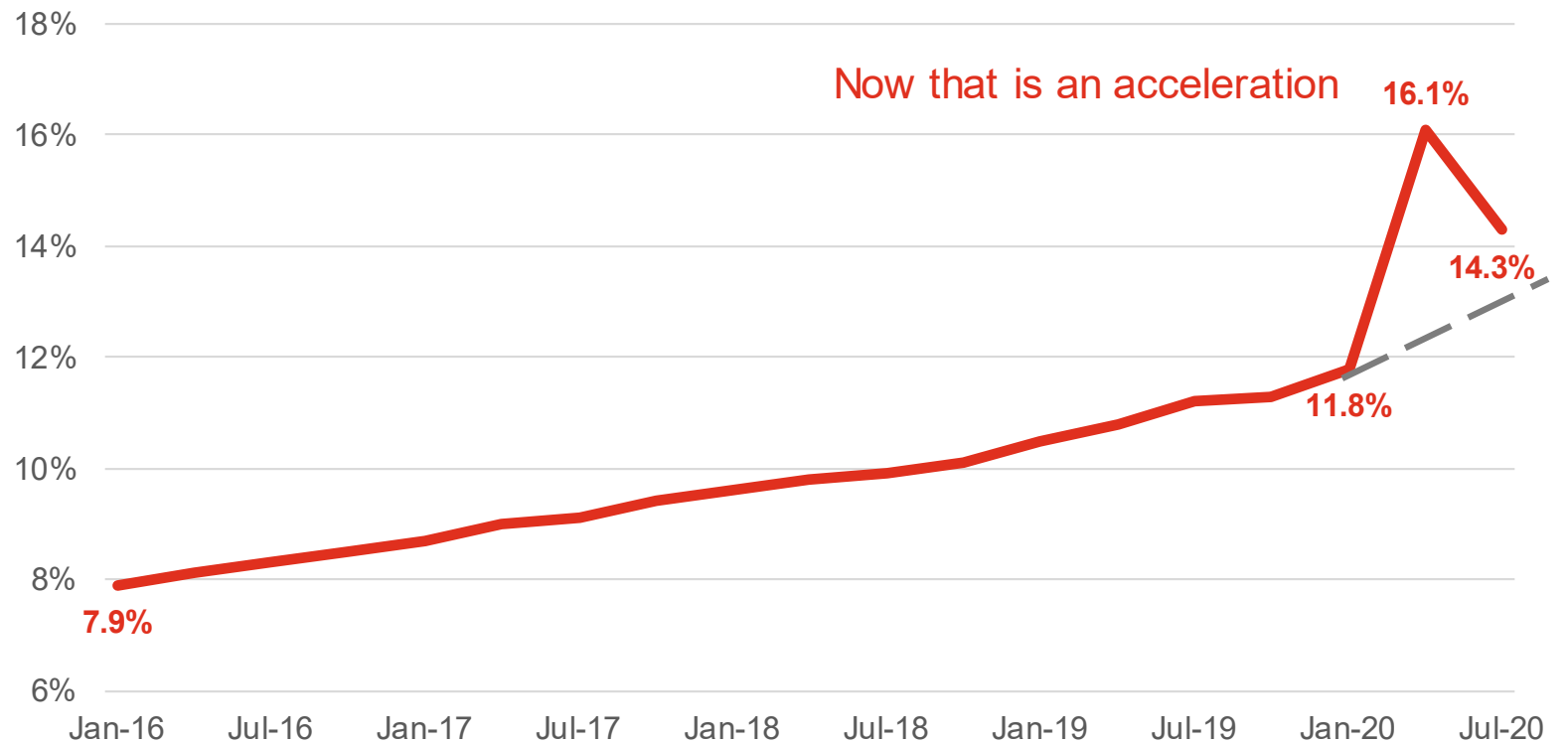
Retail Transformation: Fast forward the evolution



Retail Transformation

- Forced and voluntary closures of retailers has accelerated retailer bankruptcies
- With stores closed and consumers concerned about the virus, online sales surged – But 84% of sales were from brick & mortar locations
- Many consumers who had never had groceries or food delivered did so for the first time
- The move to experiential retail has slowed due to social distancing requirements
- Retail will likely have a smaller brick & mortar footprint, what will be done with excess space

Ecommerce Sales as % of Total



Retail finds new ways to serve the customer



Buy online pickup in store may be here to stay



Ghost kitchens in tandem with traditional restaurants



Micro fulfillment: in person and local delivery

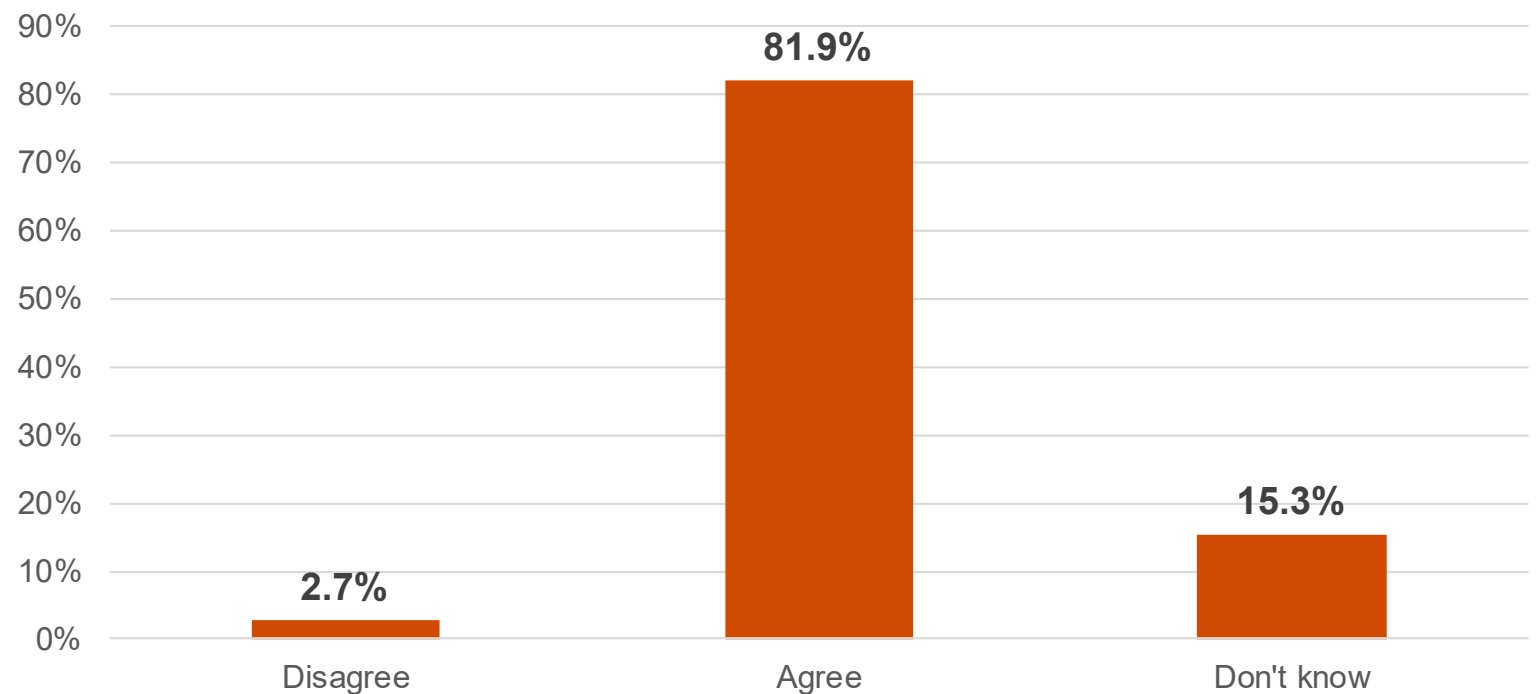
Just-in-Time to Just-in-Case: Industrial space gets a boost from supply chain concerns



Just-in-Time to Just-in-Case

- Industrial has seen continued growth due to rise in E-commerce activity, requiring both fulfilment and last mile locations
- Disruption to existing supply chains due to trade war has been accelerated by the pandemic
- Greater inventory requirements and growth in near shoring manufacturing operations could be a tailwind for warehouse
- Political support due to view of near shoring being a US job creator

% of respondents who feel the pandemic will accelerate focus on the global supply chain



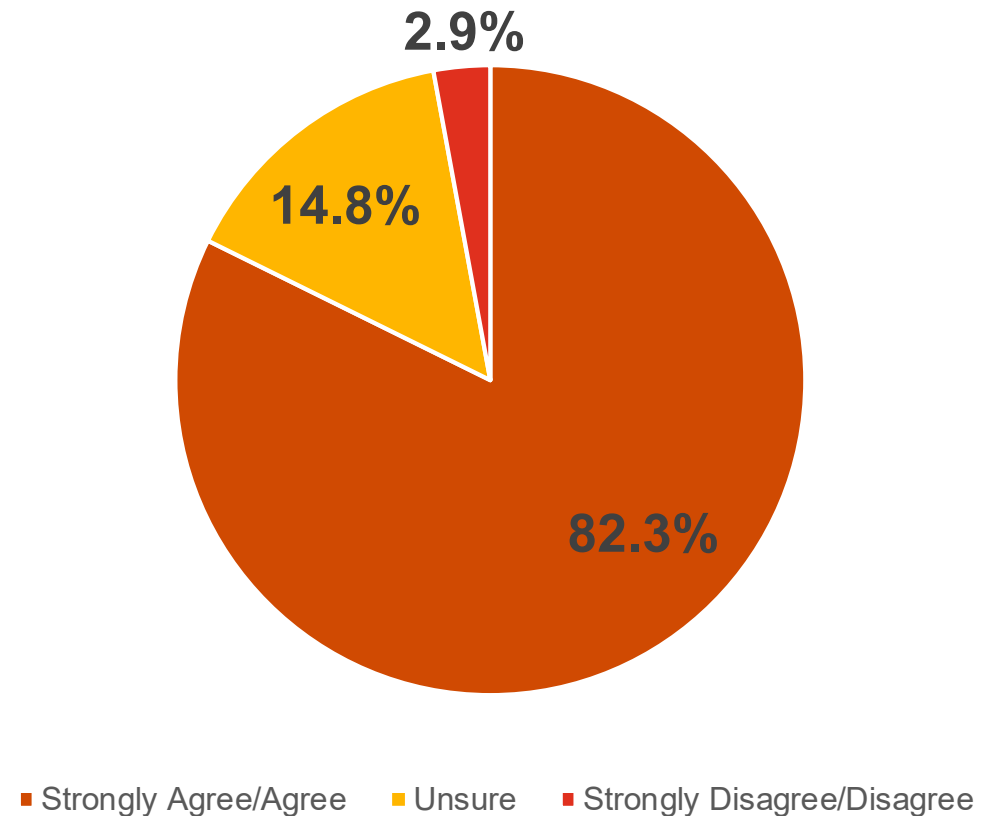
Location, Location, Safety: Enhanced health safety may become the norm



Location, Location, Safety

- Hesitancy of employees to return to work/shopping/travel due to health concerns
- Cleaning protocols could become a “must have” amenity
- Cleaning methods, tracking employee health and movement has opened new markets for PropTech

Health concerns will be a more important factor across all property types



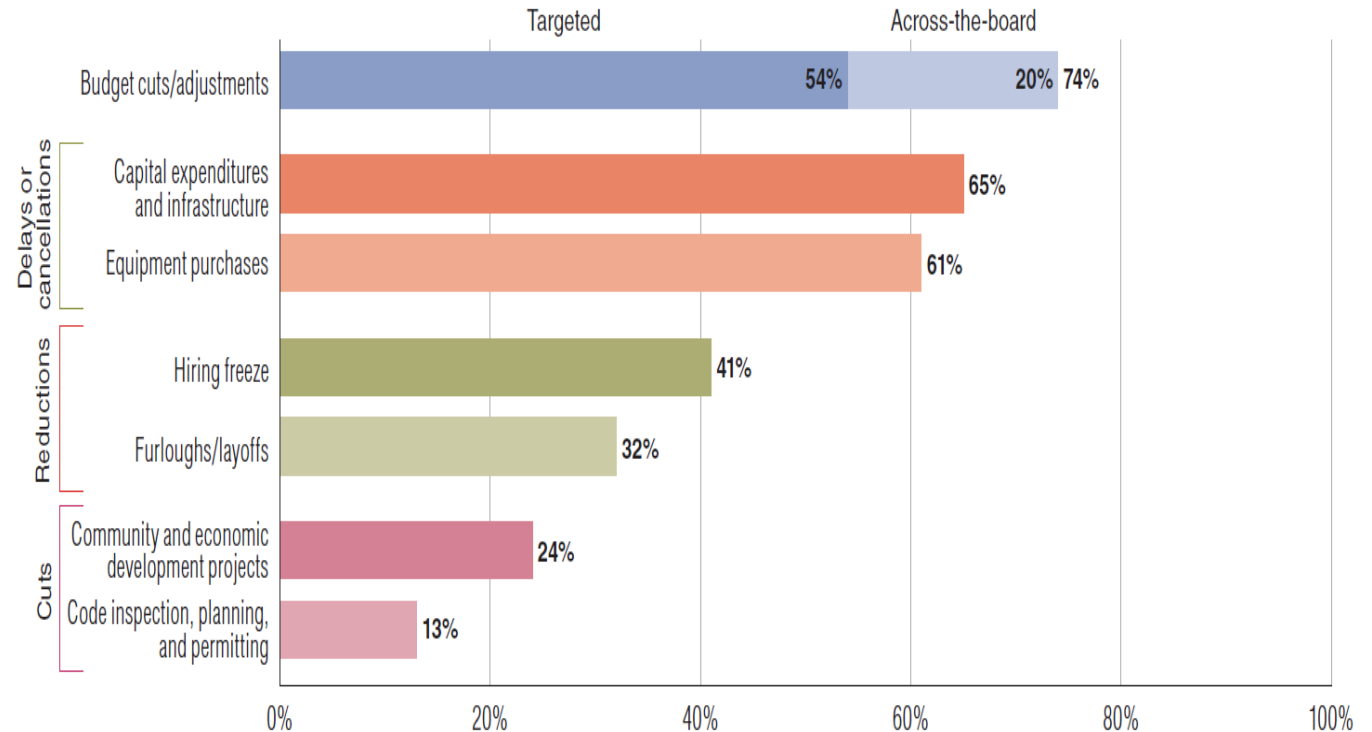
Fiscal Challenge: Cities will be challenged by pandemic related costs



Fiscal Challenge

- States and cities faced with double impact of rising costs and falling revenue
- Timing and severity of revenue decline will depend revenue source
- A lack of federal funds may lead to immediate employee and service cuts
- Real estate could be faced with higher taxes and fees and municipalities look for revenue

Municipalities across the United States and Puerto Rico say that they will have to take these actions:



Source: National League of Cities

ESG: Two aspects have the real estate industry's attention



Housing Affordability

- Pandemic has further highlighted the housing affordability issue in the US
- Steps to moderate the potential impact of the recession, may actually exacerbate the shortage of affordable housing by curtailing future development
- Eviction moratoriums could be seen as de facto rent control
- Owners and landlords unable to collect rent may default on financial obligations and defer maintenance and improvements
- Redevelopment of other property types; retail, office, hospitality, may add to affordable housing supply on the margin

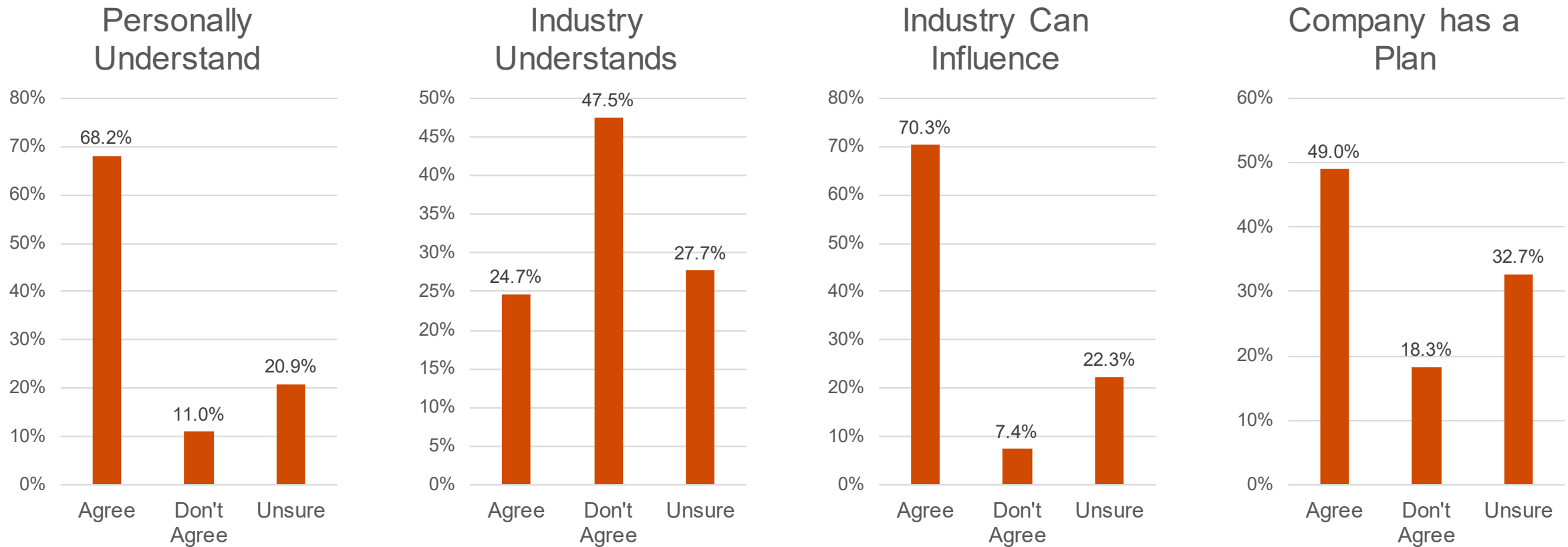


Racial/Social Inequity

- Opportunity to go from “Moment to Movement”
- Focus on racial inequity was not caused by the pandemic, but has been highlighted by the inequality of the impact of the economic recession
- The real estate industry has acknowledged contributions to systemic racism, but now has an opportunity to participate in the reform
- Ultimately, changing demographics and a slower economic growth will make it a business issue

Real Estate and Systemic Racism

Real estate industry acknowledges the need to join corporate America in ending systemic racism



Conclusion

- Uncertainty will likely continue
- 2021 a transition year
- Confidence
- No rebuilding required



Questions?

Contact me at andrew.warren@pwc.com

Thank you



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