

Emerging Trends in Real Estate 2022

ULI Baltimore

March 3, 2022



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The industry feels better about the future compared to last year, and justifiably so. In fact, they are so good, maybe we should be nervous?

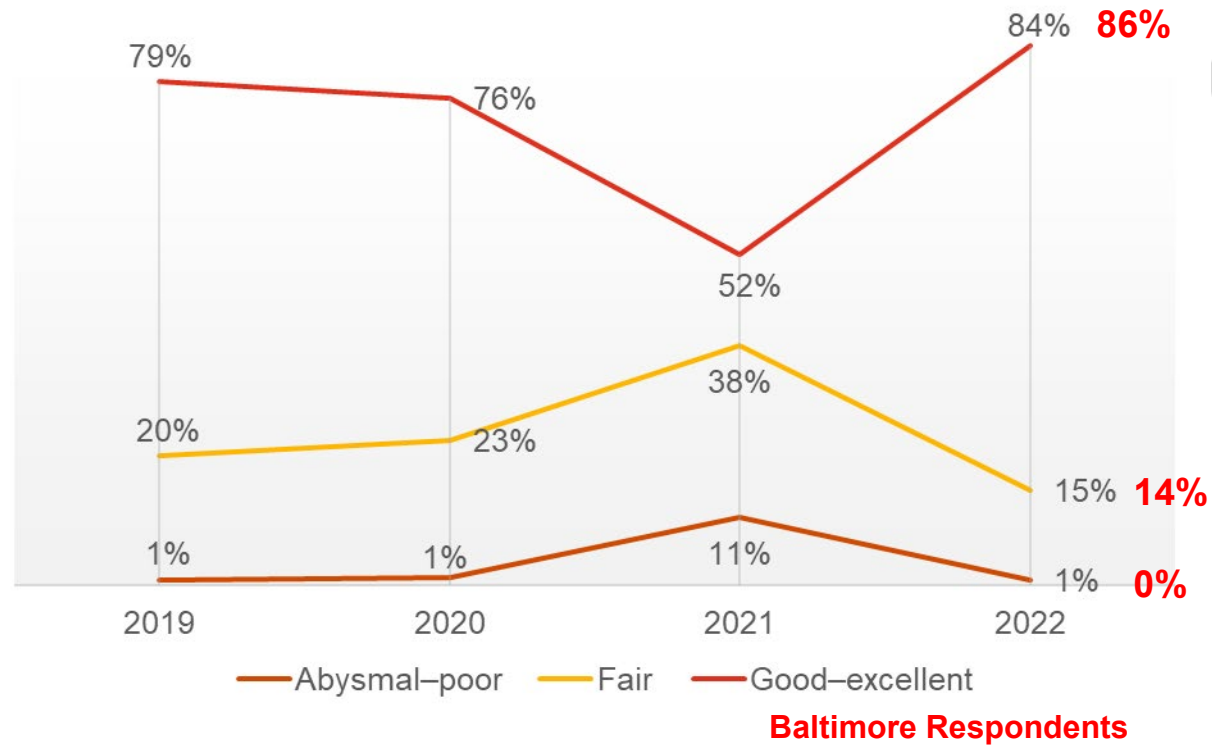
2022 Sentiment

2022 Outlook Exceeds the Pre-Pandemic Rate

Real confidence or post-pandemic bounce?

- ❑ Confidence in continuing economic recovery
- ❑ Despite limited downturn, exhibiting true “V” recovery shape
- ❑ Would a look under the hood reveal more bifurcation?

Outlook for Next Year vs. Current Year



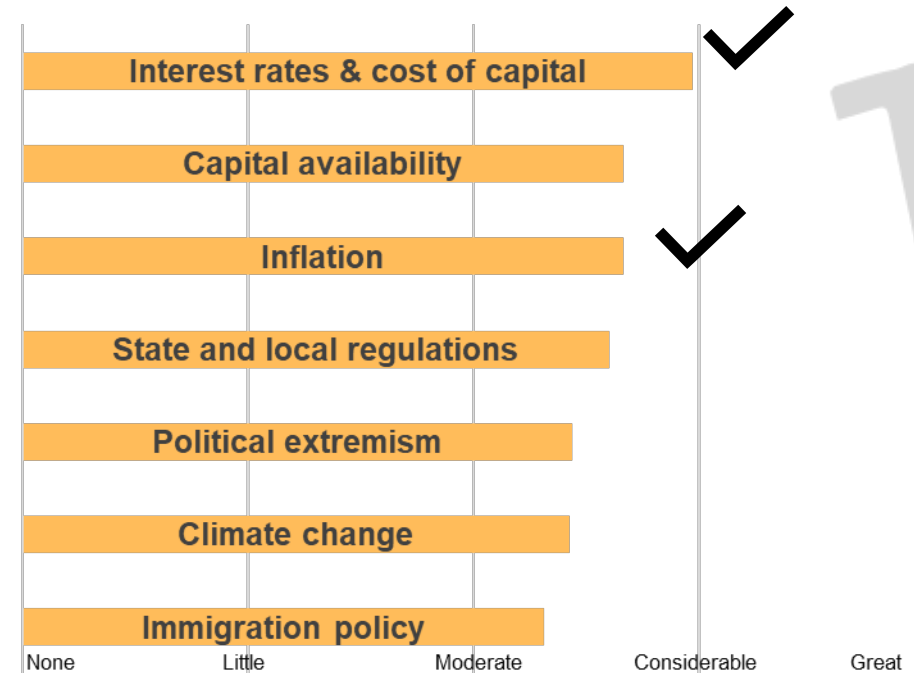
2022 Areas of Concern

Despite rising optimism, still some issues to watch

Considerable Concern for 2022



Moderate Concern for 2022



Financial and Capital Market 5-Year Expectations

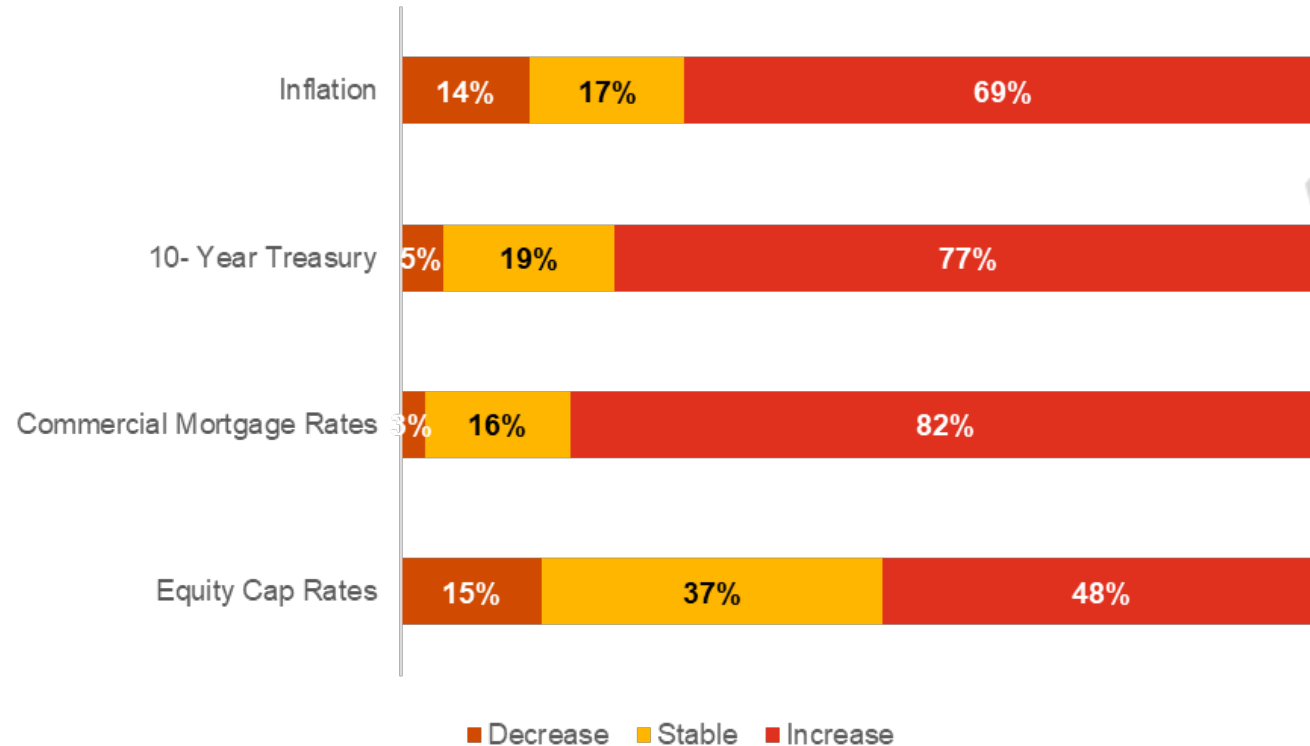
Survey responses in August didn't anticipate the highest inflation rates since the 1980's

Majority of respondents do feel that rates are likely to increase moderately over the next 5 years

In the short-term rising costs hurt everyone

Mid-term sectors with pricing power may have an advantage

Long-term sustained higher inflation will be troublesome



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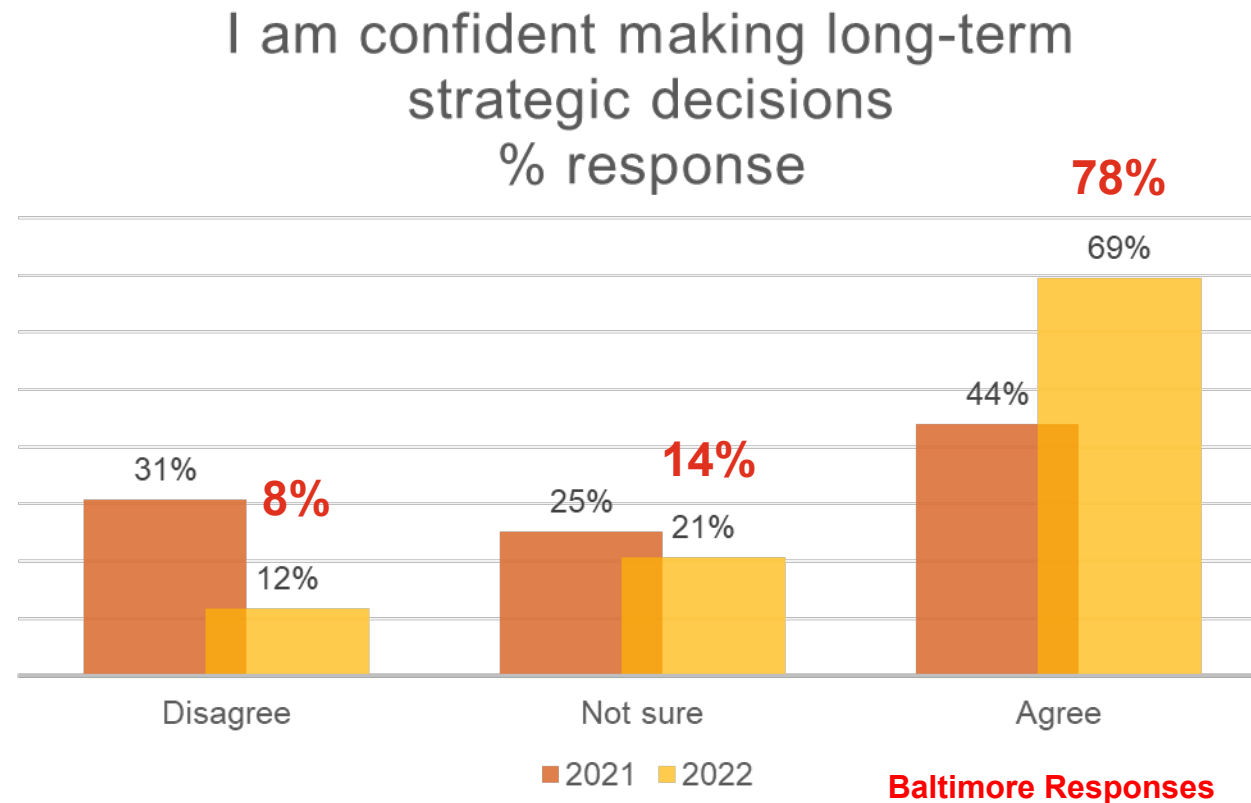
We may have made it through the pandemic in better shape than anticipated, so far.

New Age of Uncertainty

We Feel Like We Know More

Confidence is volatile in this market

“I am 100% more confident today than I was a year ago. But I’m only 50% more confident than I was six months ago.”

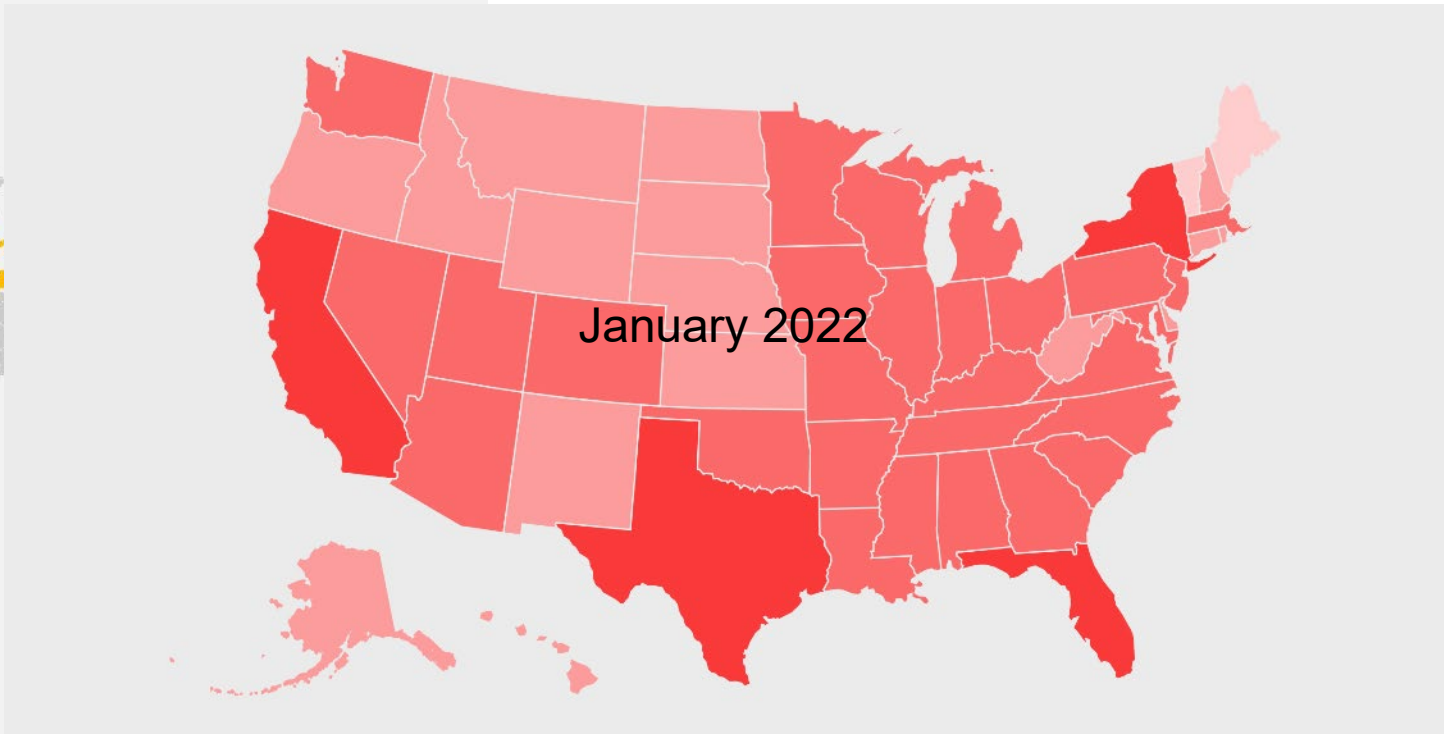


New Variant Concerns - Omicron

Watching for the discovery and spread of new variants add to future uncertainty



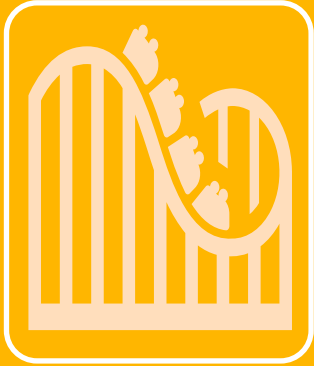
November 26th



Two weeks later

Trends That Reflect the New Uncertainty

Unknown creates opportunities and challenges



One Pandemic: Divergent
Outlooks

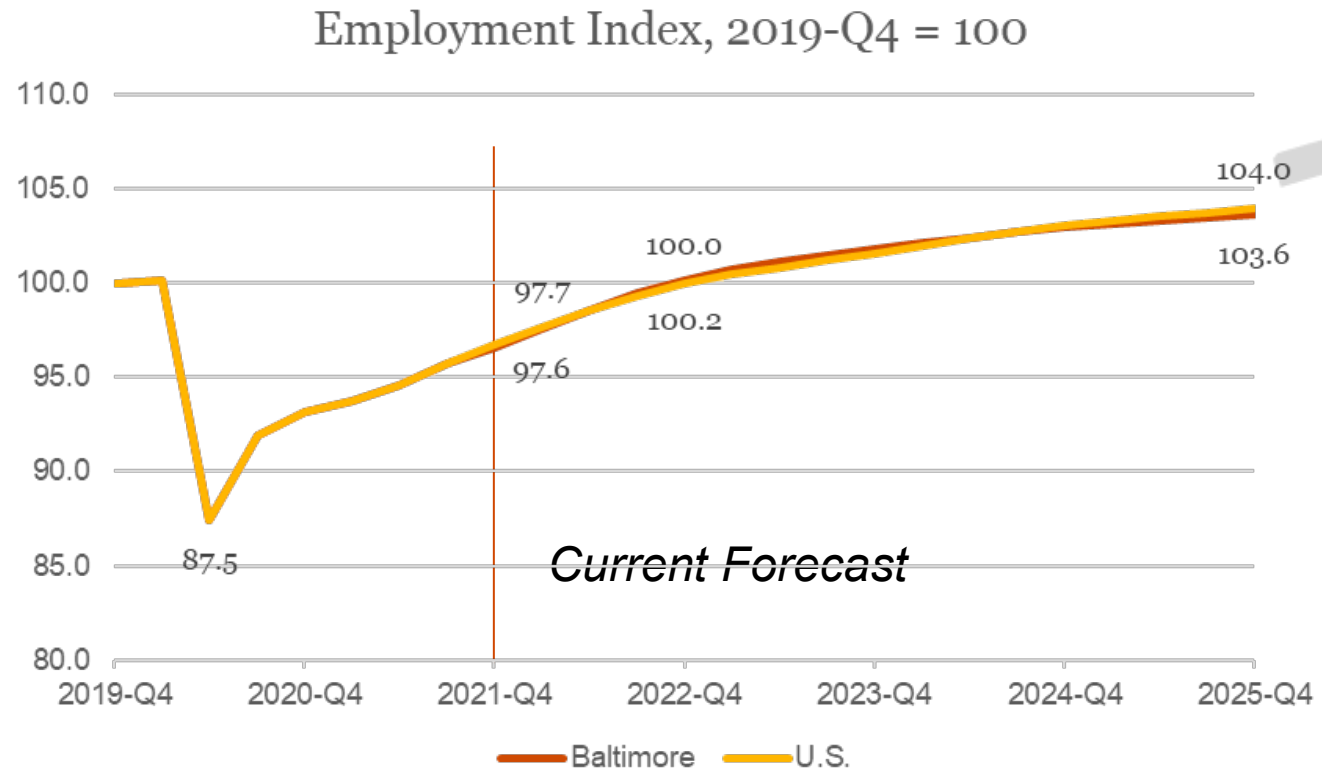


Everybody Wants In

One Pandemic: Divergent Outlooks

Employment Change Outlook

All markets move toward recovery, but pace varies due to severity of the downturn and local industry mix

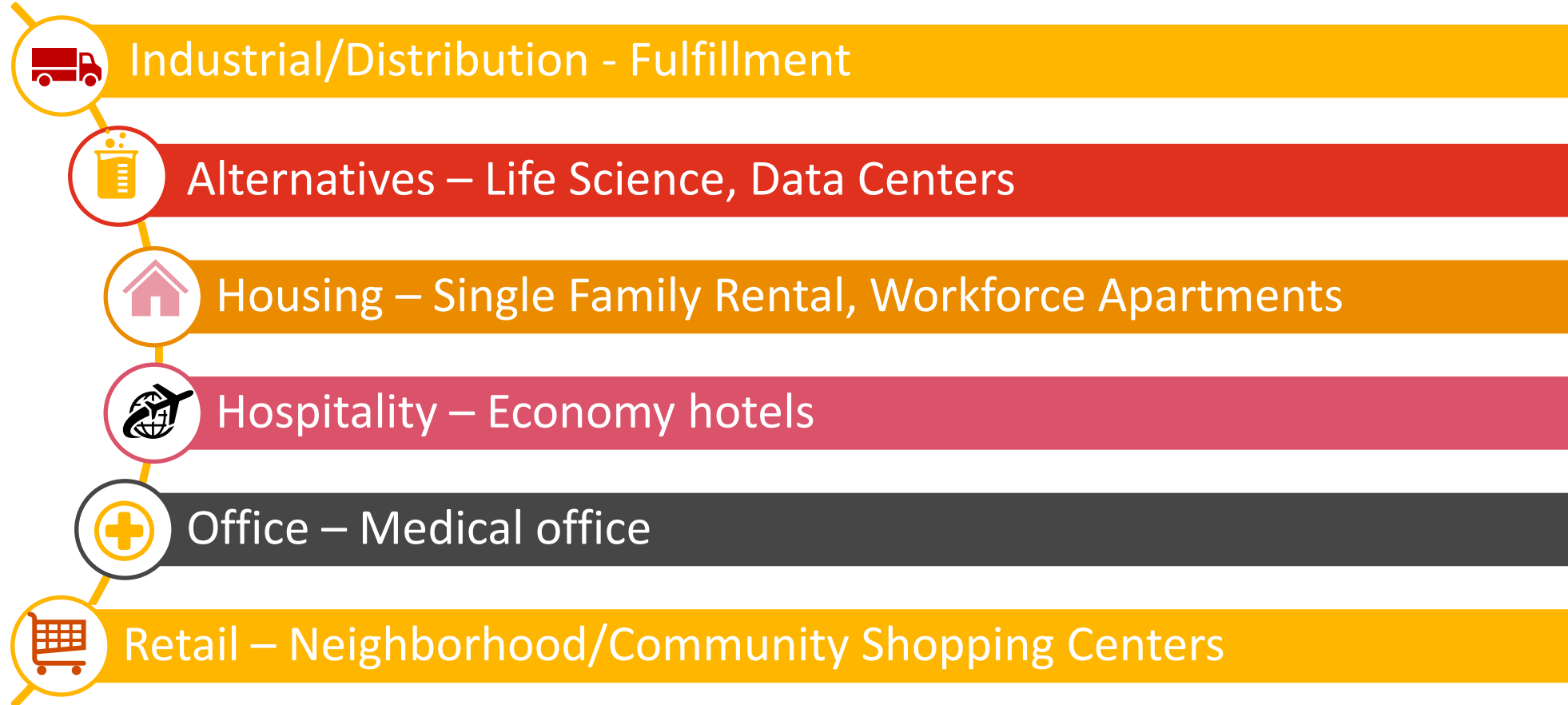


Source: IHS Markit

One Pandemic: Divergent Outlooks

2022 Property Type Outlook

More favorable outlook

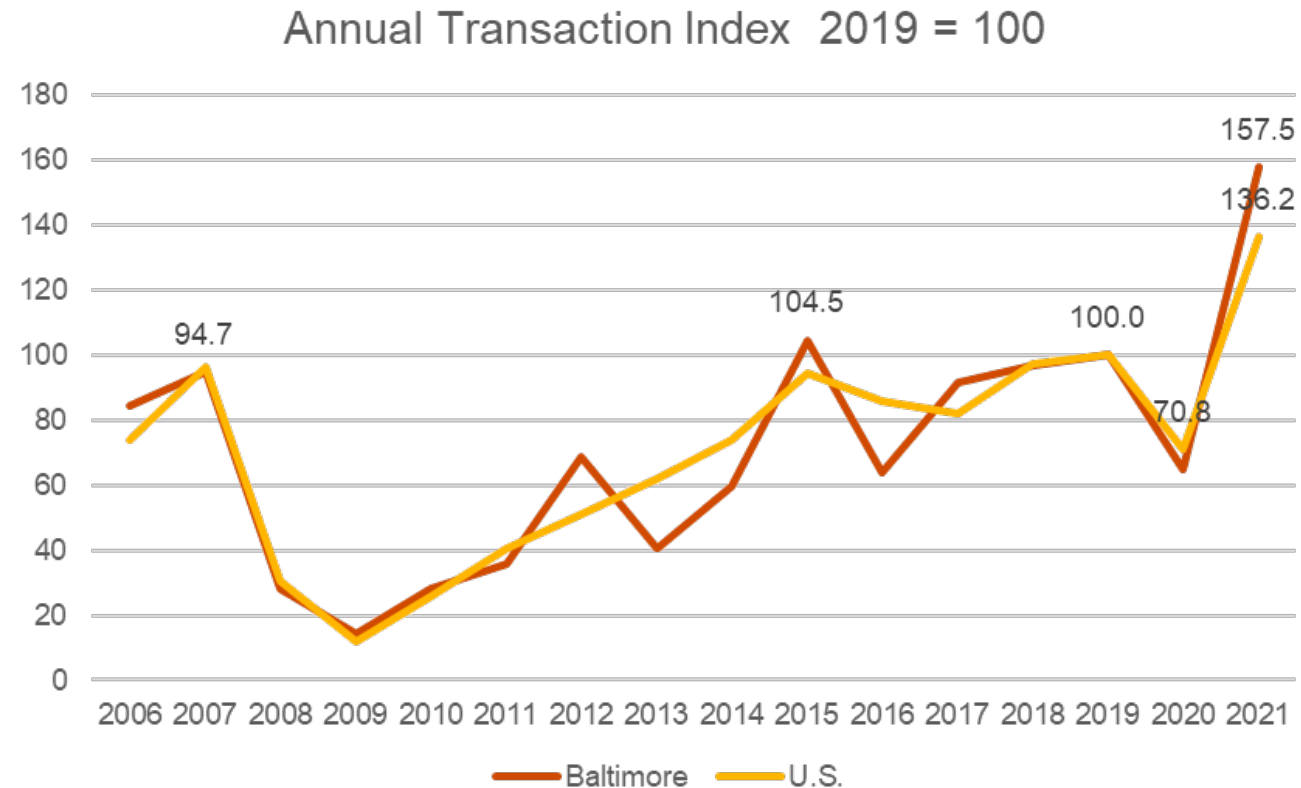


Less favorable outlook

Everybody Wants In

Property Sales Index Since the Pandemic

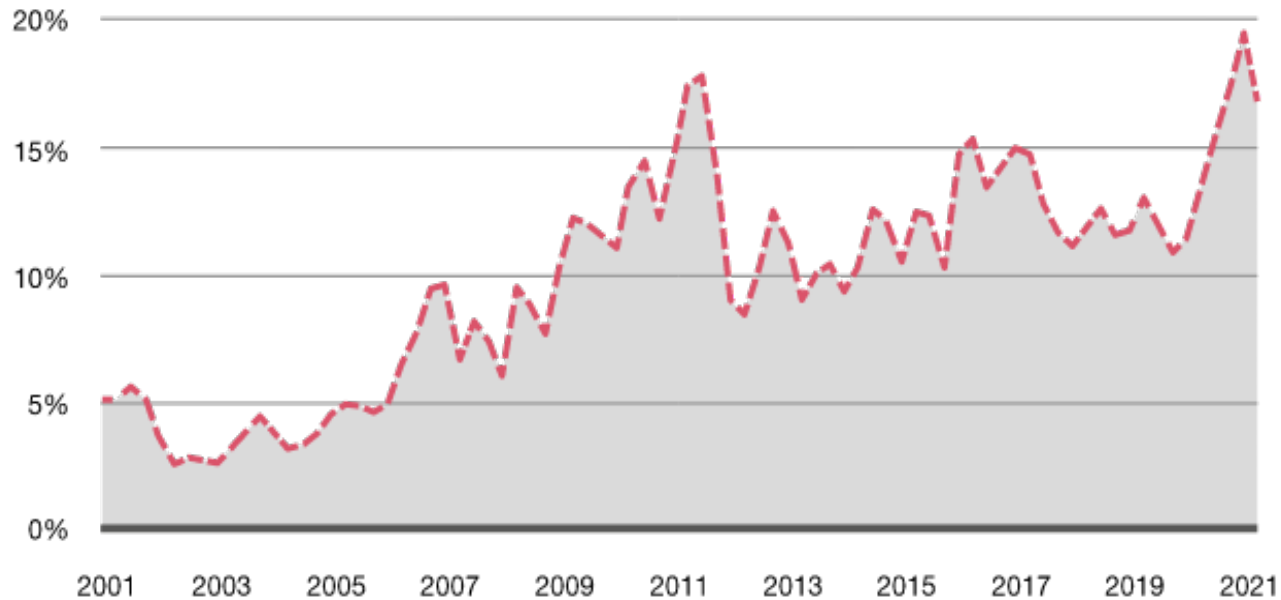
National transaction volume is back above pre-pandemic levels



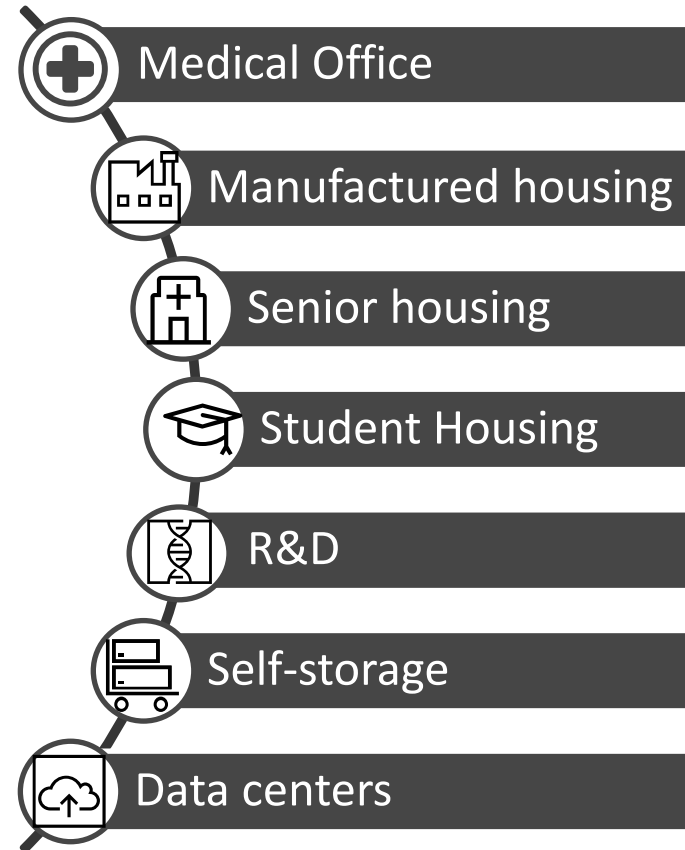
Source: PwC Analysis of Real Capital Analytics Data

Everybody Wants In

**Alternative sectors share of all CRE investment*
two-quarter moving average**



* Includes medical office, manufactured housing, seniors housing, student housing, R&D, self-storage, and data centers.
Source: Real Capital Analytics; compiled by Nelson Economics



Everybody Wants In

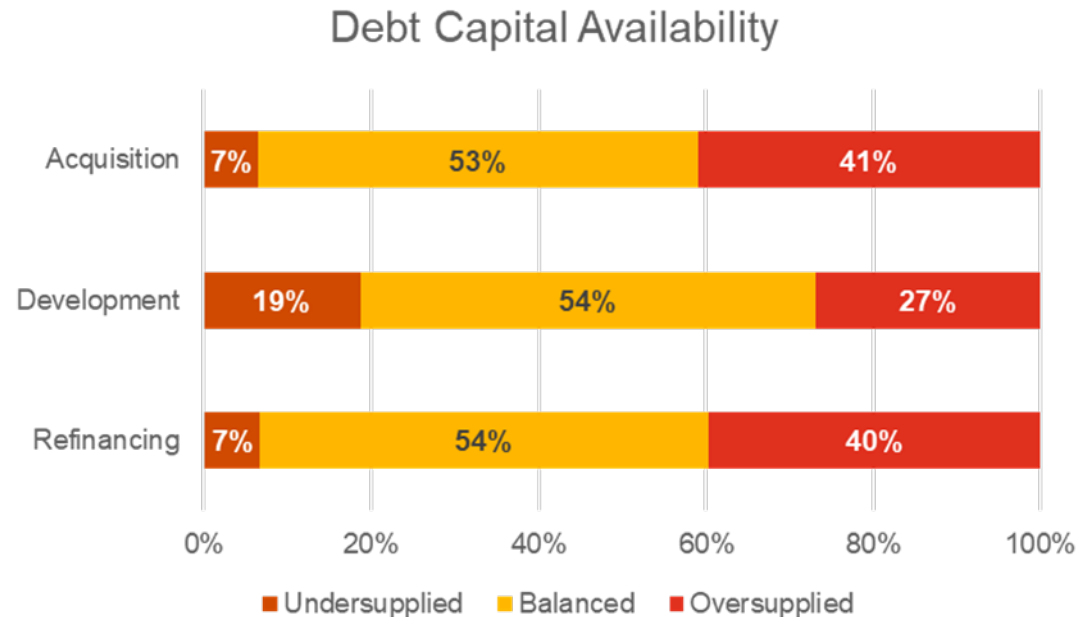
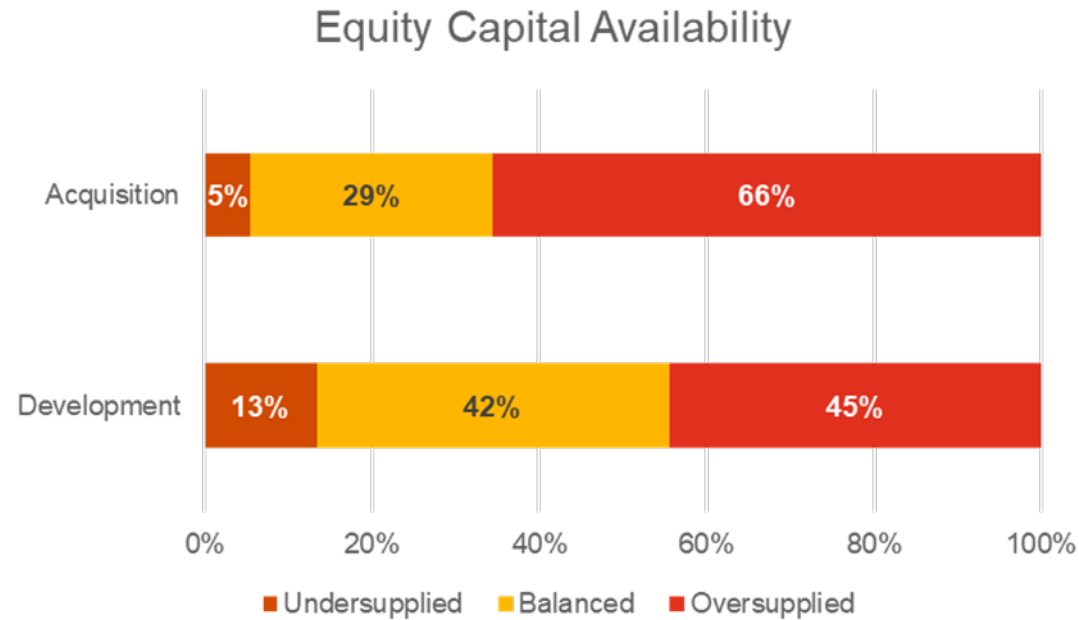
No lack of capital

\$231.8b

- Dry powder targeting U.S. real estate
- Total up 139.2% from 2011 to August 2021
- Strategies targeted:

29.9% opportunistic
28.3% value add
21.7% debt

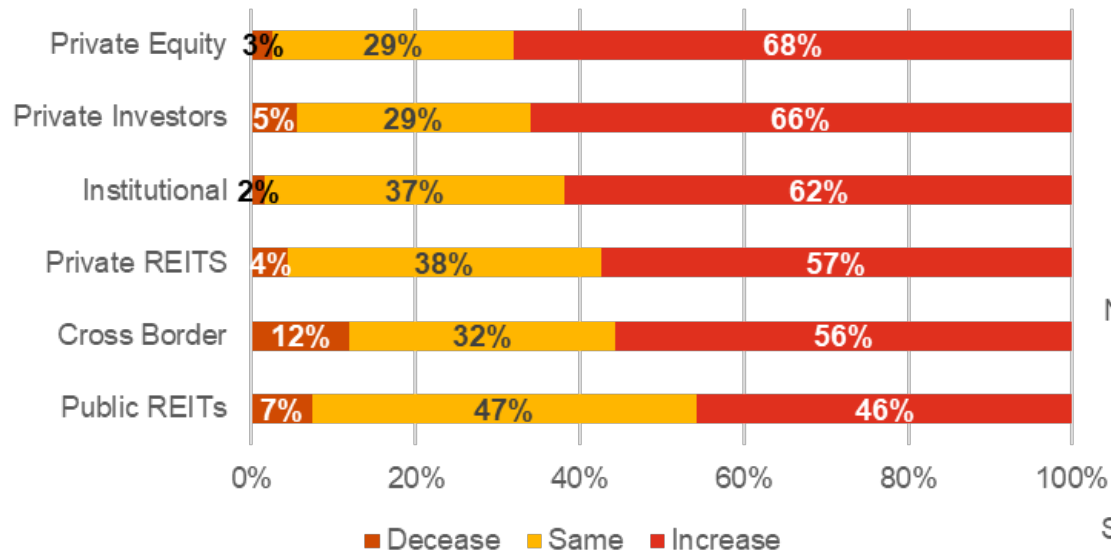
Prequin



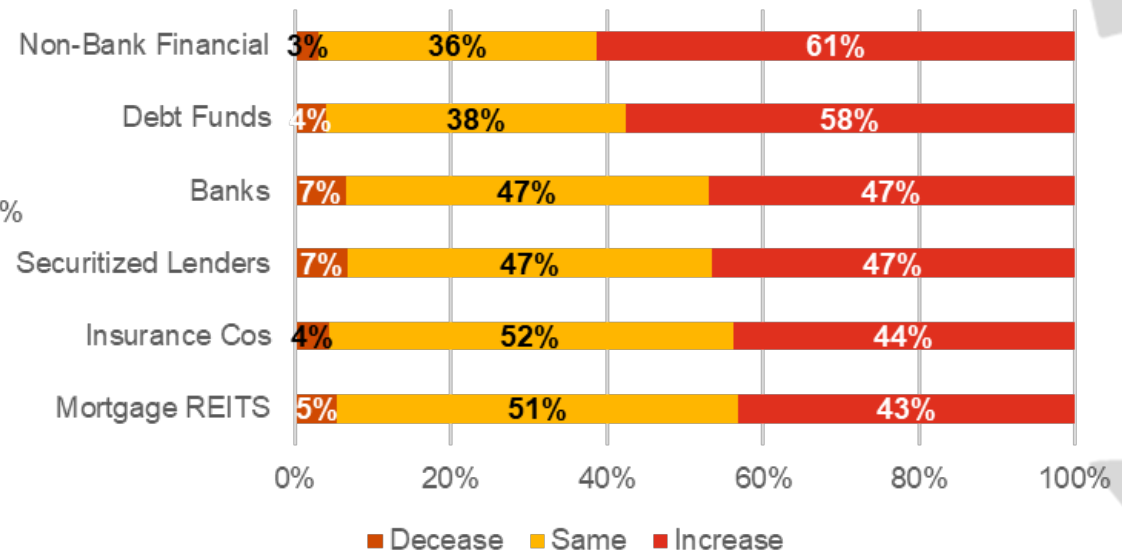
Everybody Wants In

Survey respondents expect more capital from everyone!

Change in Sources of Equity Capital



Changes in Sources of Debt Capital



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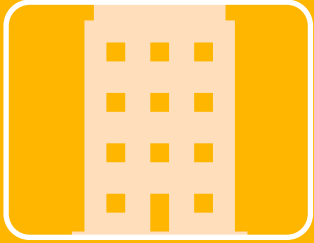
It doesn't feel like an either-or question. Employees seem to really just want the flexibility that allows them to succeed.

Flexibility



Trends That Reflect the desire for Flexibility

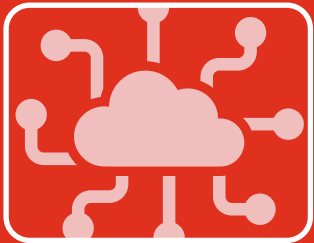
Unknown creates opportunities and challenges



Work from Anywhere:
An Office Reset



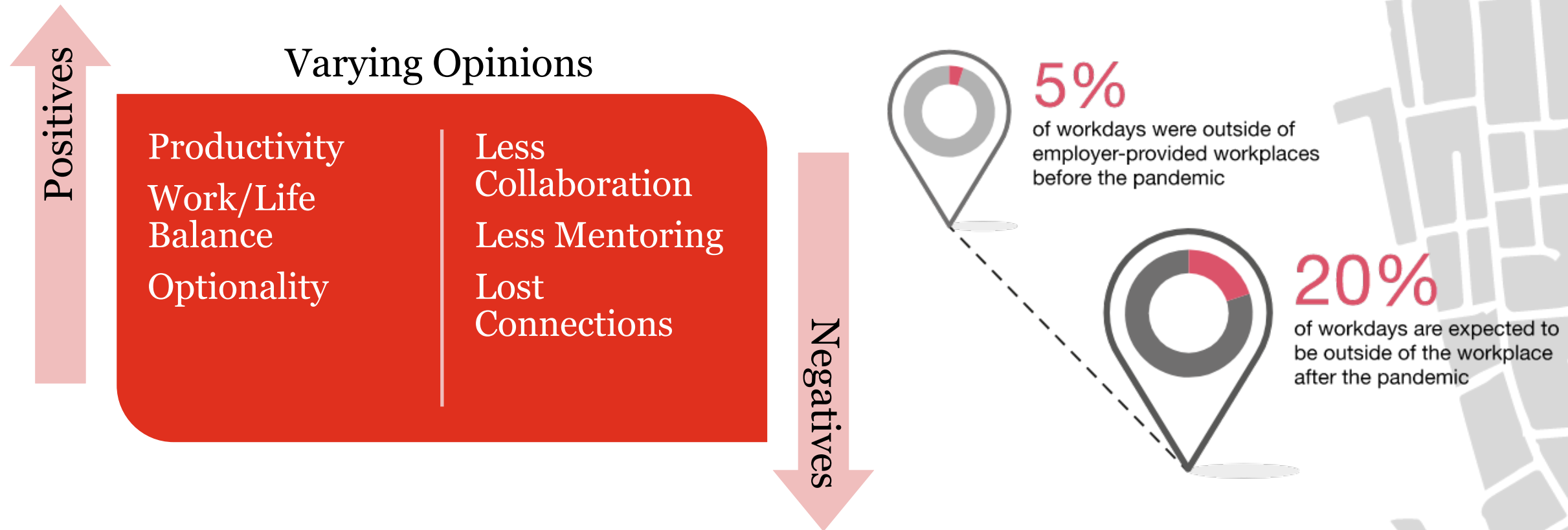
Work Anywhere:
Live Anywhere



Proptech:
Matures and Expands

Flexibility and Convenience Drive the Next Decade

The when, where, and how of everything is changing

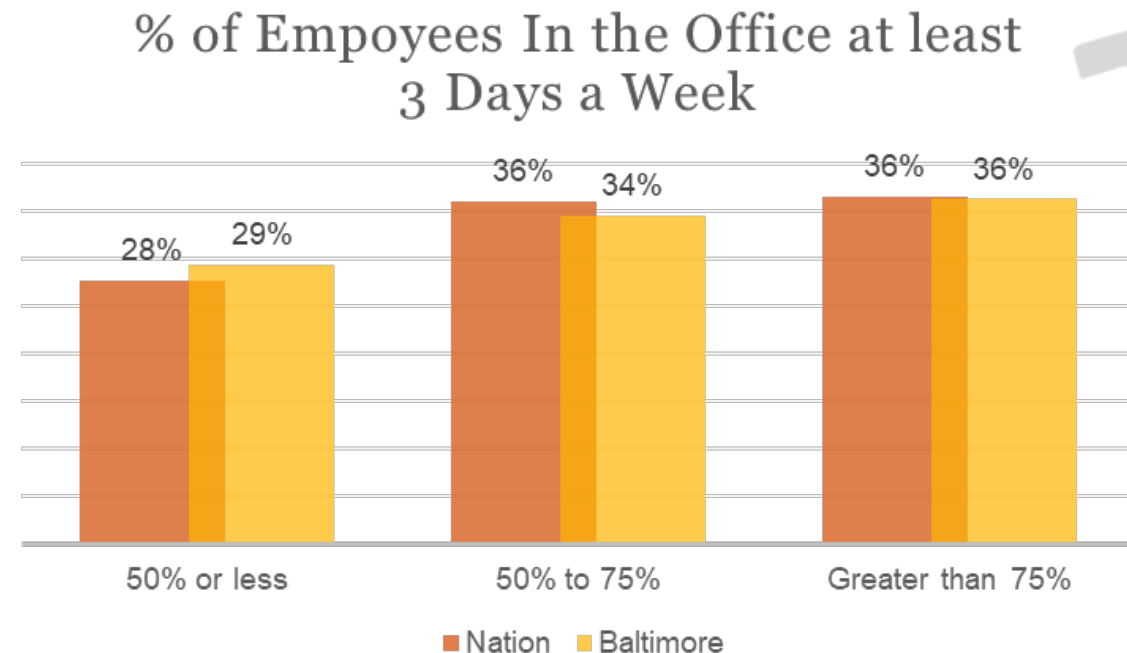


Flexibility and Convenience Drive the Next Decade

Work Anywhere – The Office Reset

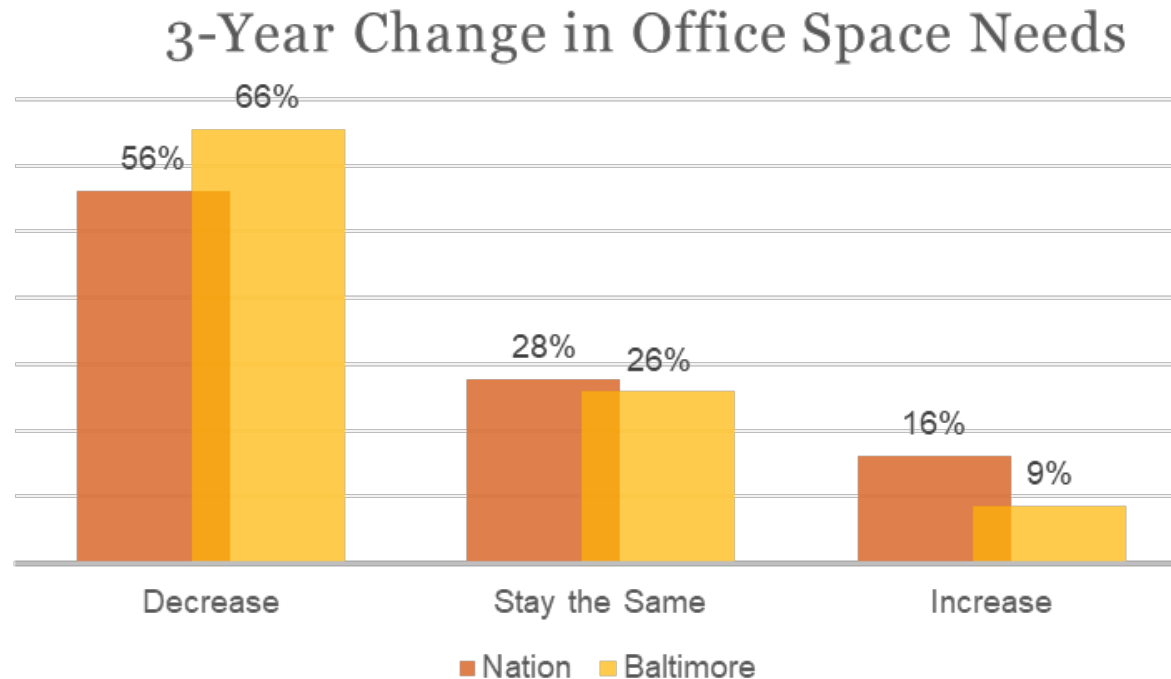
3

Seems to be the
magic number!



Flexibility and Convenience Drive the Next Decade

Work Anywhere – The Office Reset



Nationally, 56% of respondents feel that office space needs will decrease over the next 3 years, but there is a component that feels space needs will increase

If demand is less, what will tenants be looking for?

Business Travel Question – Wait and See

How do you anticipate business related travel may be different over the next 3 –years?



Business related travel will be lower than 2019 levels – 57%

Why?

Technology will replace travel – 52%

Companies looking to control costs – 32%

Desire to reduce carbon footprint – 12%

Business related travel will be comparable to 2019 levels – 35%

Business related travel will be higher than 2019 levels – 8%

Why?

Face to face needed to be competitive – 43%

Face to face needed to rebuild relationships – 36%

Increased travel driven by remote work – 21%

Flexibility and Convenience Drive the Next Decade

Work Anywhere -- Live Anywhere

Boomerang

- Already underway
- Return location may be different

Labor Force

- Slower labor force growth
- Attracting workers critical

Flexibility as Recruiting Tool

- Benefits of a global labor pool
- How committed will work force be to flexibility?

Flexibility and Convenience Drive the Next Decade

Top markets to watch reflect current trends



1. Nashville
2. Triangle
3. Phoenix
4. Austin
5. Tampa/St. Petersburg
6. Charlotte
7. Dallas/Ft. Worth
8. Atlanta
9. Seattle
10. Boston

Flexibility and Convenience Drive the Next Decade

National Trends and Baltimore



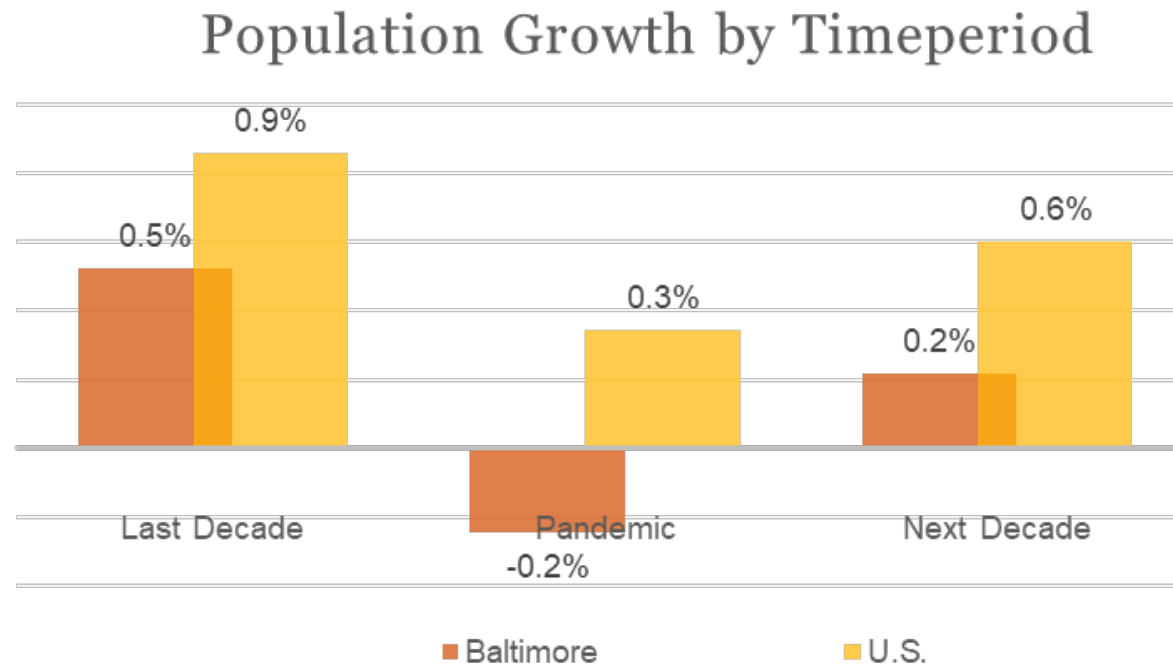
- ❑ Linger concerns over gateway market recovery
- ❑ Growing tech centers
- ❑ Interest in suburban/remote work locations
- ❑ Slower population growth concerns

Flexibility and Convenience Drive the Next Decade

Work Anywhere – Live Anywhere

The nation experienced the slowest decade of population growth in 40 years

The national growth rate is projected to be even slower over the next decade



Source: US Census Bureau, IHS Markit

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The pandemic didn't cause a lot of these issues, but it did give us a different perspective

Recognition

2022 Recognizing New Components of Existing Trends



Housing Crisis Redux

- Housing boom in a recession
- Bifurcated impact
- Issues with trying to regulate a solution
- Supply problem



Retrofitting Cityscapes

- Pandemic changes become permanent
- Suburbanization of the urban core
- Infrastructure spending impact
- Rise in regionalization

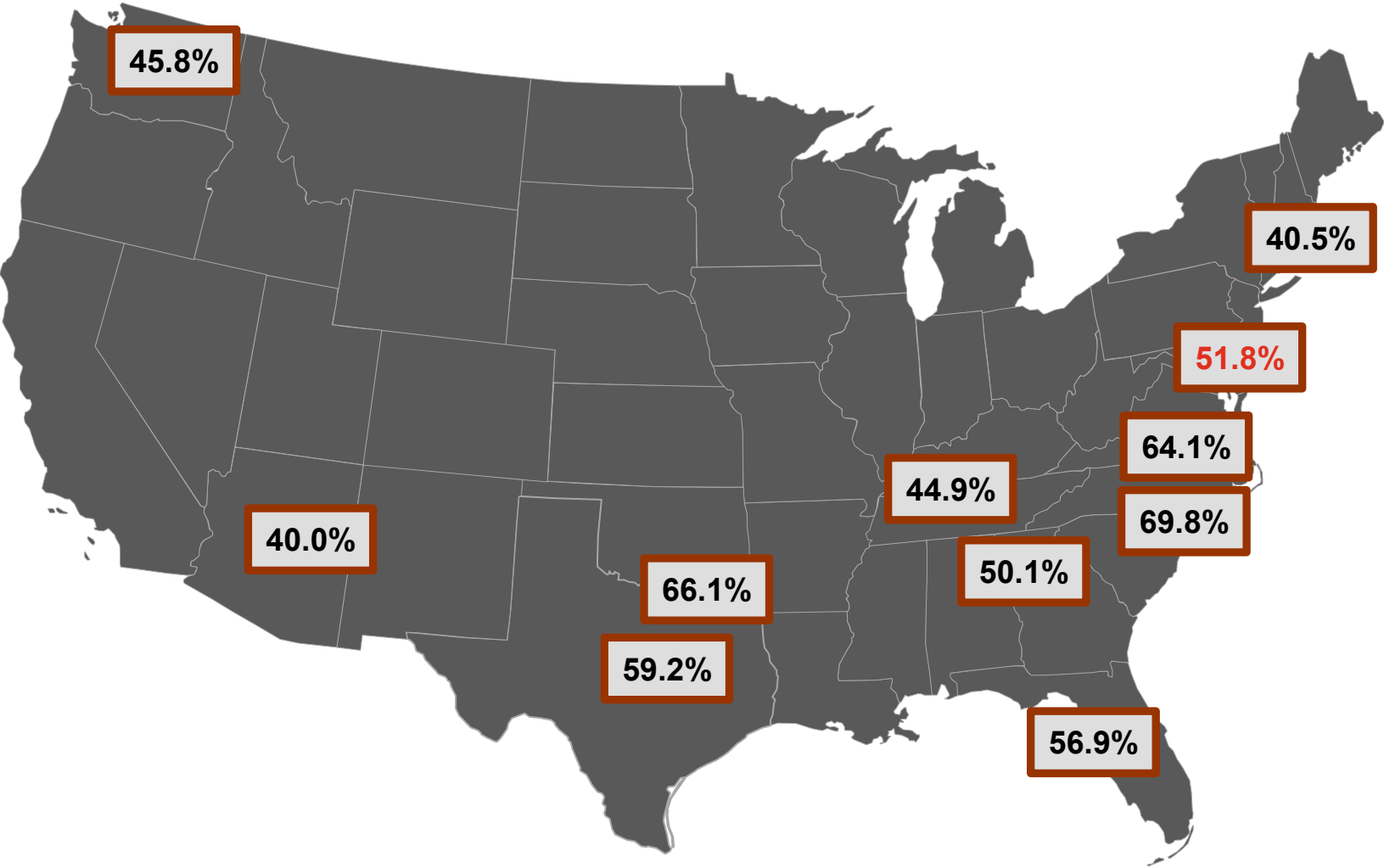


Climate Change is On Us

- Pandemic increased the focus
- ESG influence
- Realization that this isn't a next generation problem
- Moving from talk to action

Housing Crisis Redux

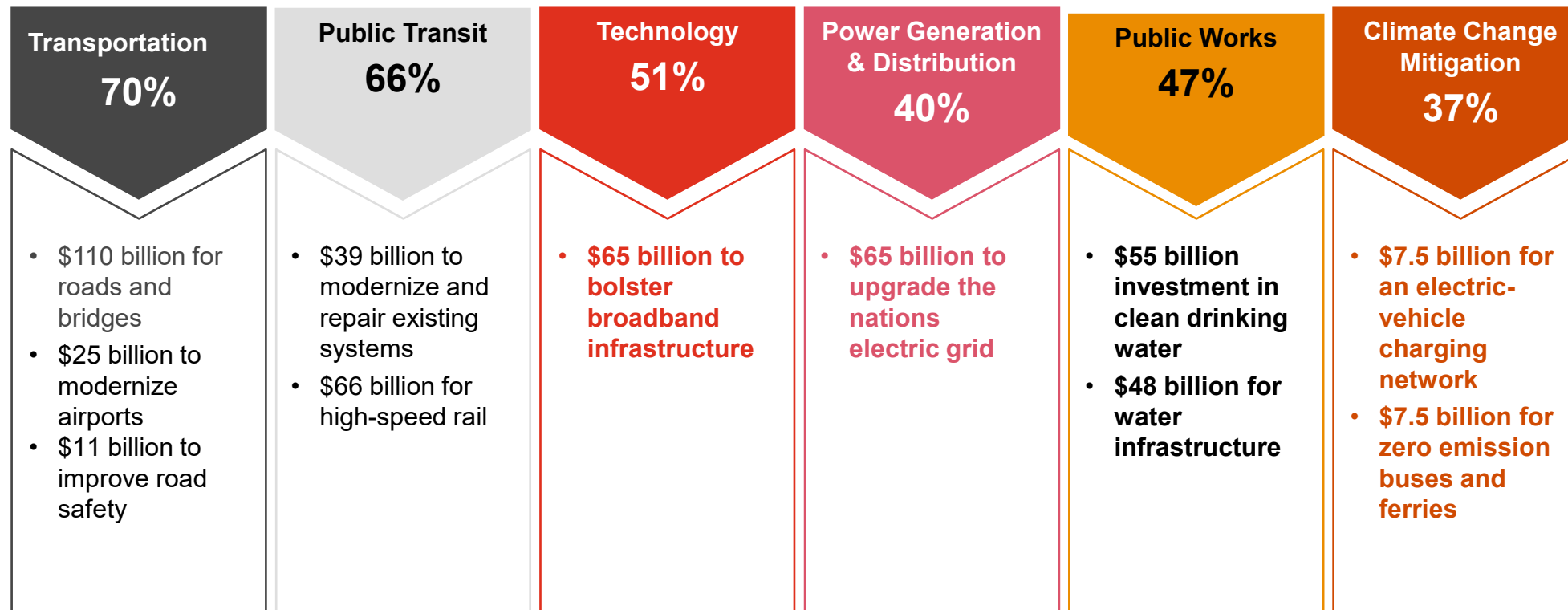
In Migration Puts Pressure on Housing Attainability



% of all homes likely affordable to a 4-person family earning 120% Average Mean Income

Retrofitting Cityscapes

\$1.2 Trillion in Infrastructure Spending



% of 2022 Emerging Trends Survey Respondents

Climate Change Is on Us

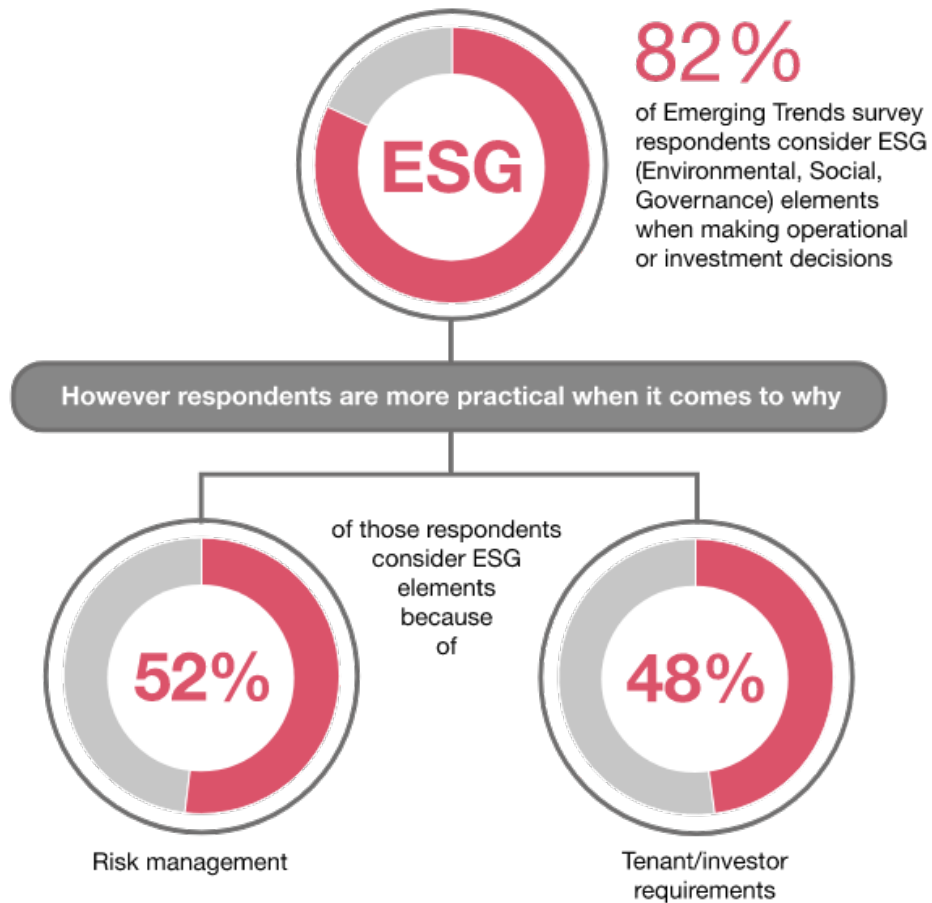
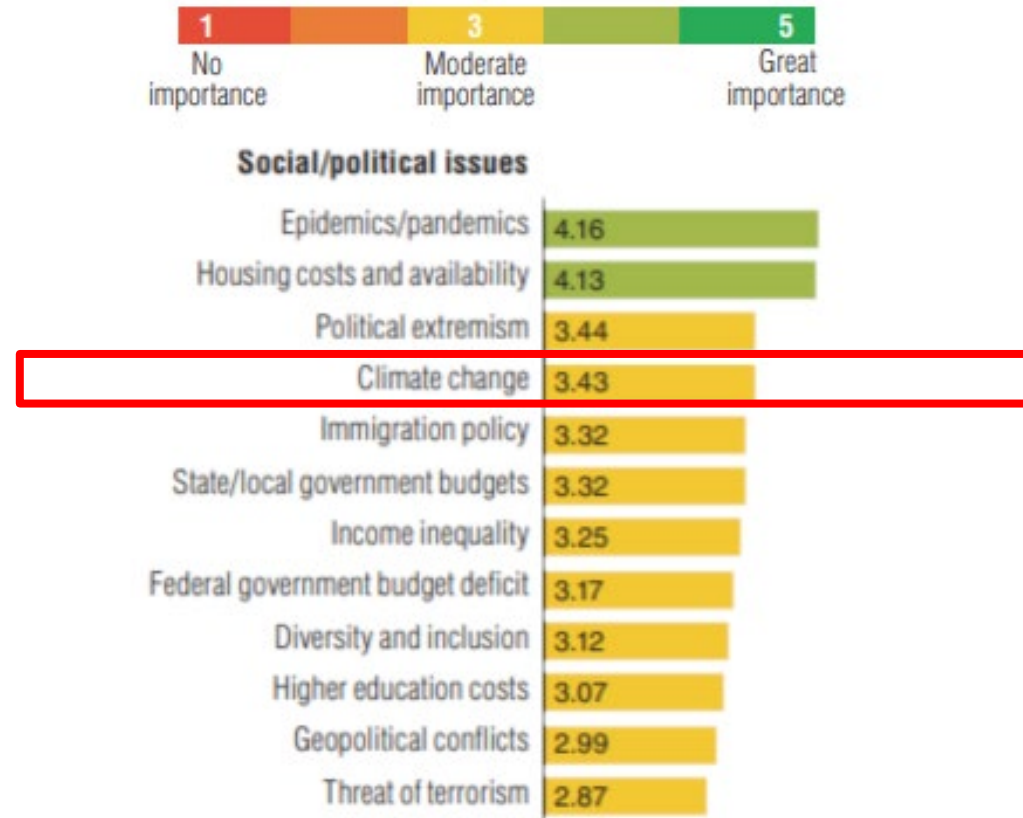


Exhibit 1-3 Importance of Issues for Real Estate in 2022

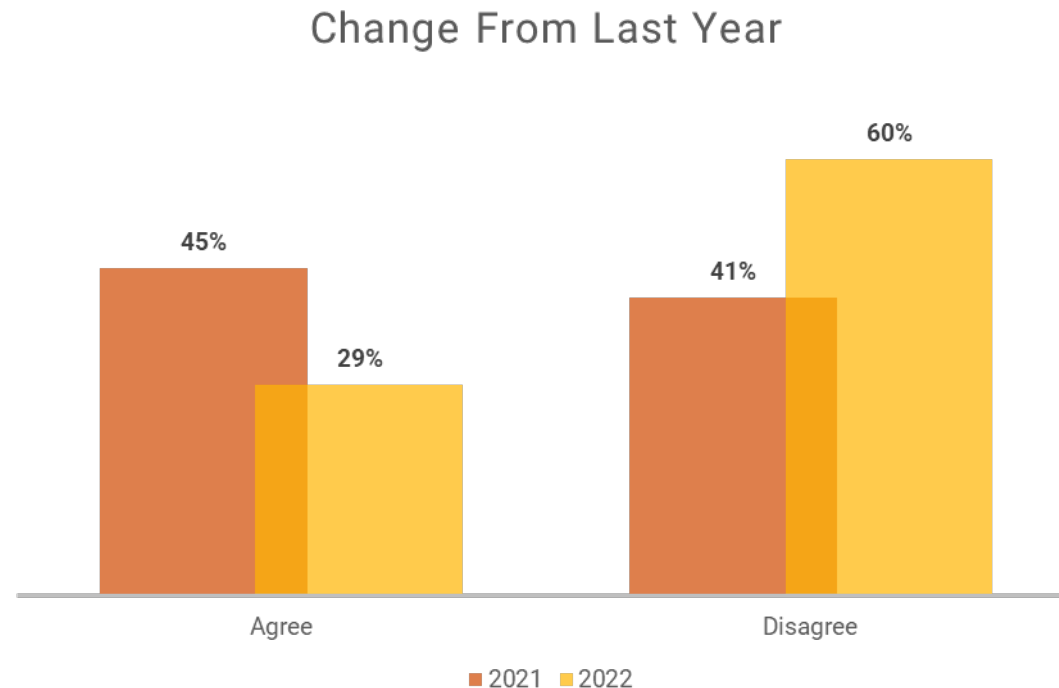


“Temporary” Adjustments Become Permanent

Q: *Changes implemented as a result of COVID-19 will revert to pre-pandemic activity in 2022*

Over 60% don't believe that we will revert to pre-pandemic activity

The length of the pandemic is changing fundamental thinking around multiple issues



“

What I will and won't do Post-Pandemic

5. Won't accept invitations to gatherings I don't really want to attend
4. Will stay home from work when I'm sick
3. Won't blow out birthday candles
2. Will be glad the rats have gone back to the alleys
1. Won't wear pants...

That aren't athletic wear!!



Thank you

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