

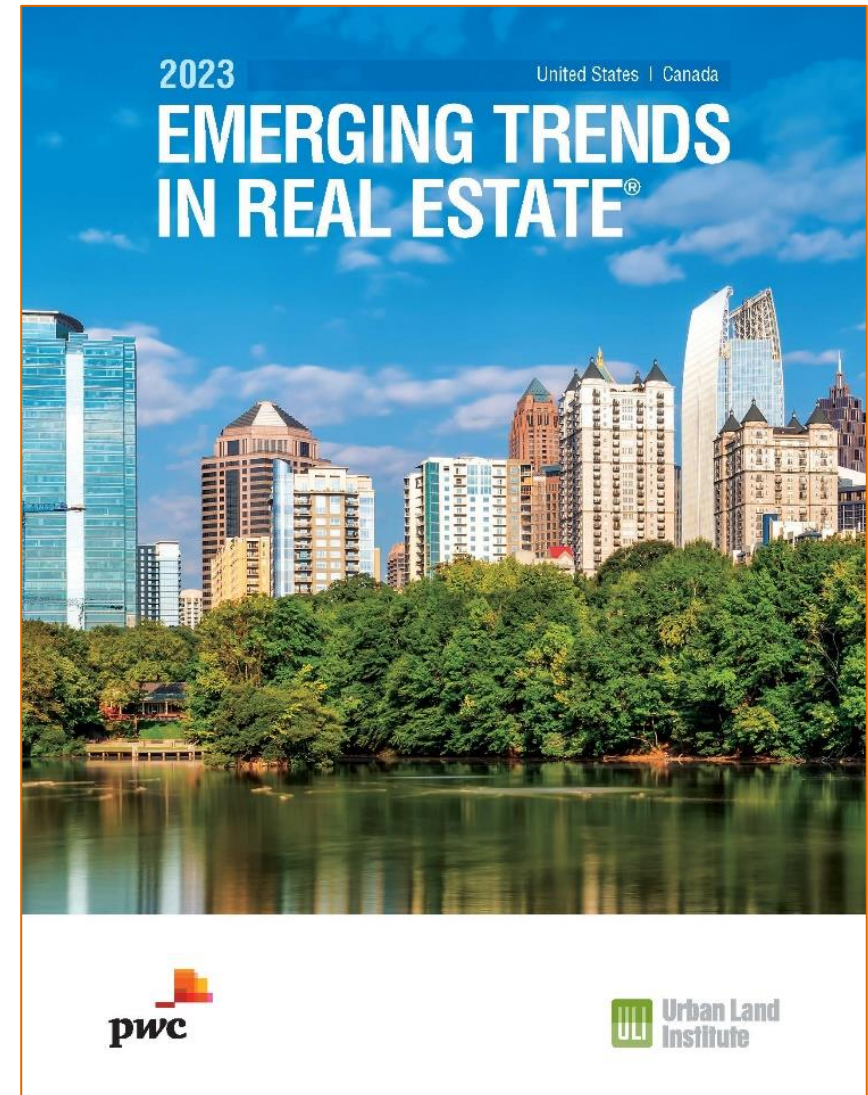
Emerging Trends in Real Estate 2023

ULI Baltimore District Council
January 26, 2023



Emerging Trends in Real Estate 2023

- Provides one of the real estate industry's most predictive outlook
- The longest, continually published forecast: 44th edition
- Based on an extensive survey and numerous confidential interviews with industry leaders
- Emerging Trends global with Europe, Asia Pacific, and Canada coverage
- Published by PwC in conjunction with Urban Land Institute



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Taking the long view –
Near term concerns offset
by long term optimism

1

Market Sentiment
Reflects Concern

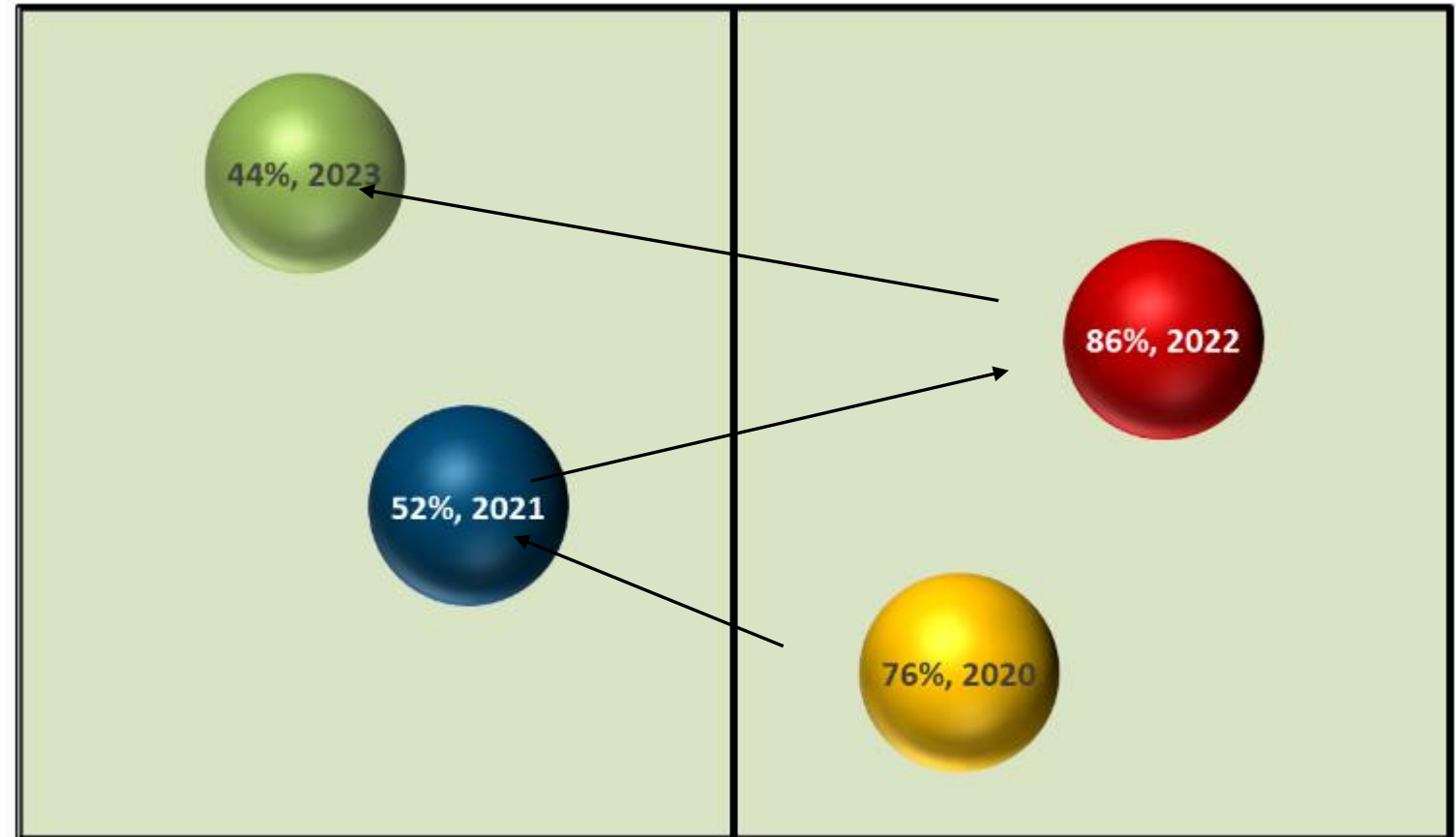
The wall of worry



Market sentiment for 2023

Percent of survey respondents who feel their business will be good to excellent in the coming year compared to the current year

- Outlook has been volatile since 2019
- Sentiment dropped significantly during the pandemic, then rebounded with the reopening of the economy
- Outlook for 2023 reflects current uncertainty about the economy



2

What is Normal?

A familiar recipe with some new ingredients

Normalizing, but we should face it some things have changed -- It could get a little messy

What is transitioning to a new normal

Inflation – Where does it go from a 40-year high?

Rising interest rates – How high? How long?

Real estate returns – Down from record levels?



New normal will also include how we have changed

Changes adopted over the last 3 years look like they will stick around

Notable Changes

In-Store vs. Online Shopping

- Shoppers go back to the store
- Online holds on to gains

Business Travel vs. Virtual

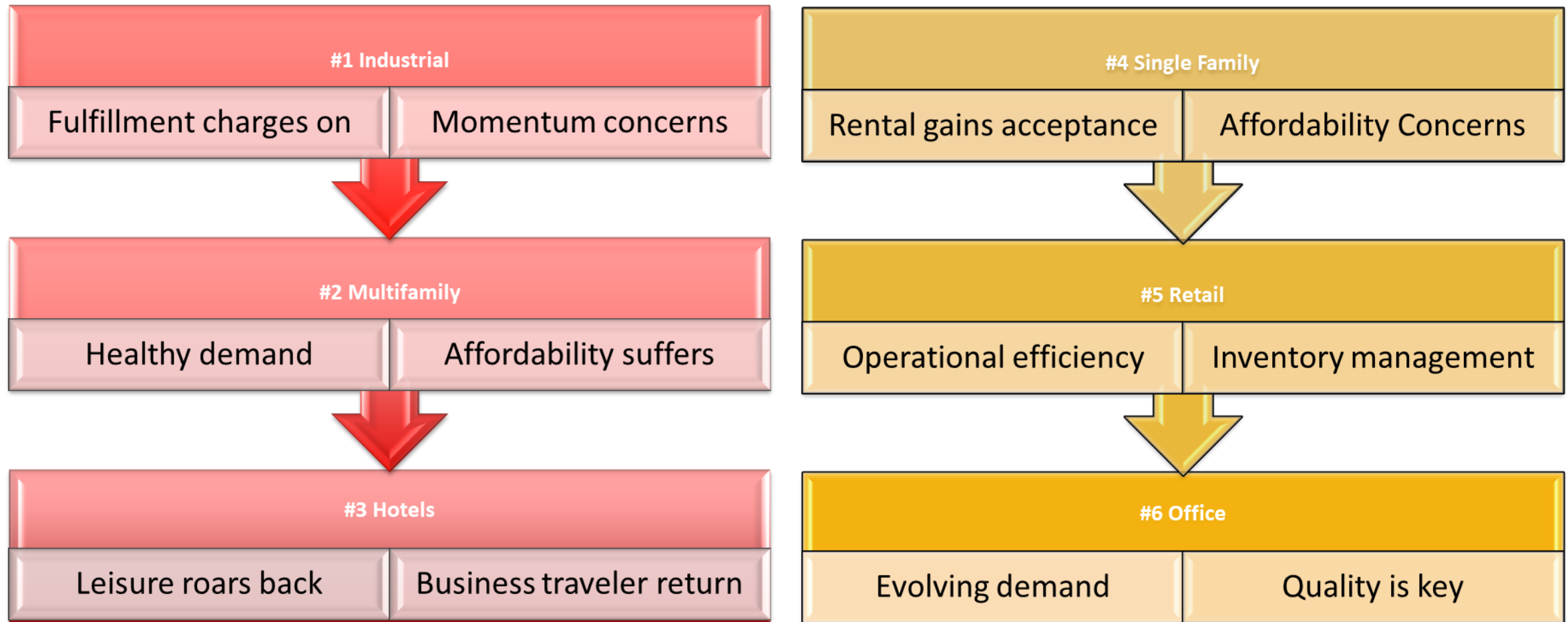
- Value of face-to-face rediscovered
- Hard to overlook cost savings and convenience of virtual

Work-From-Home vs. Return to the Office

- Employees like flexibility
- Employers want collaboration

Property type outlook remains consistent

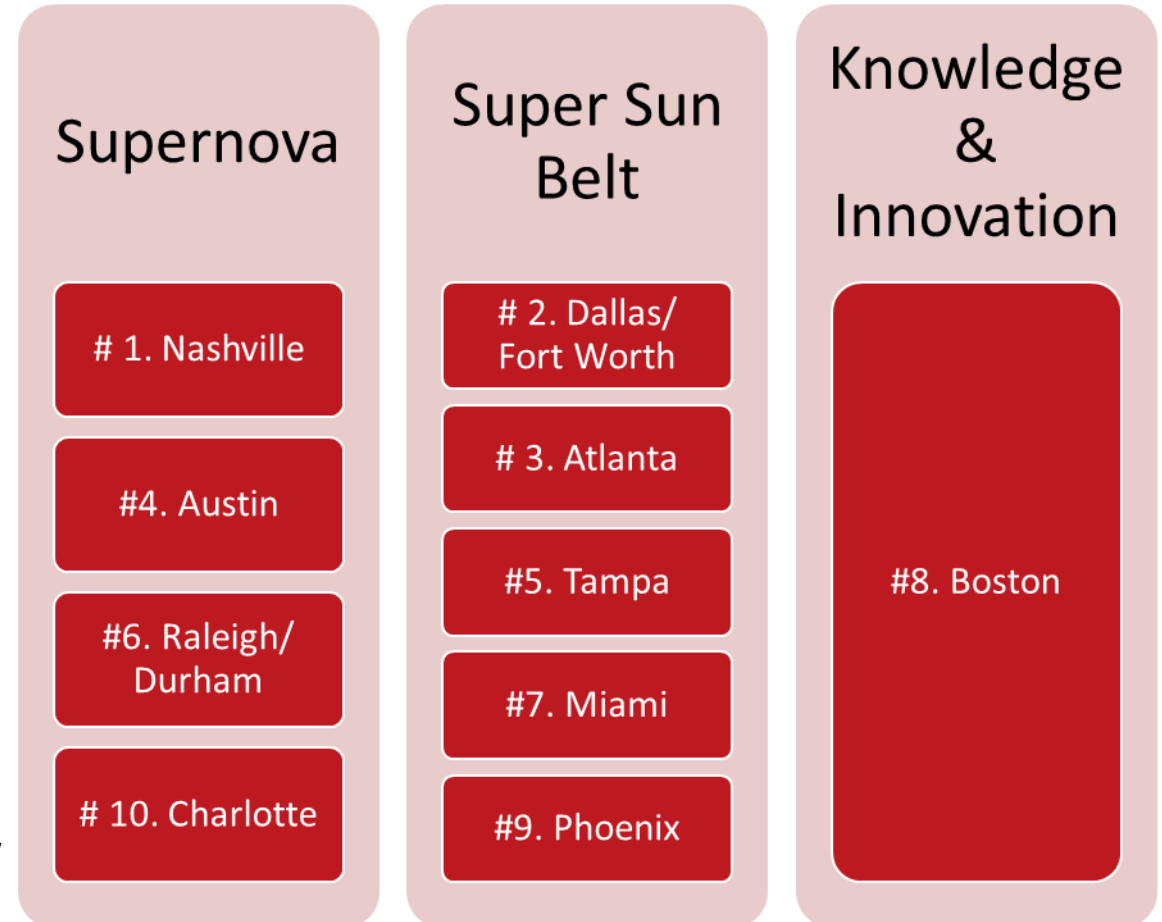
Despite evolving “normal” outlook by property type is little changed from last year



Rewards – and growing pains – in the Sun Belt

Individual markets move to their own new normal

- The ongoing migration to Sun Belt communities accelerated during the pandemic
- These same markets remain attractive, but growing pains are becoming more evident
 - Home prices outpacing local incomes
 - Inadequate infrastructure
 - Burden on municipal services
- Markets remain popular with investors
 - “You want to be where the people are”
 - Seen as a transition phase
 - Long term success will be based on how new challenges are met



3

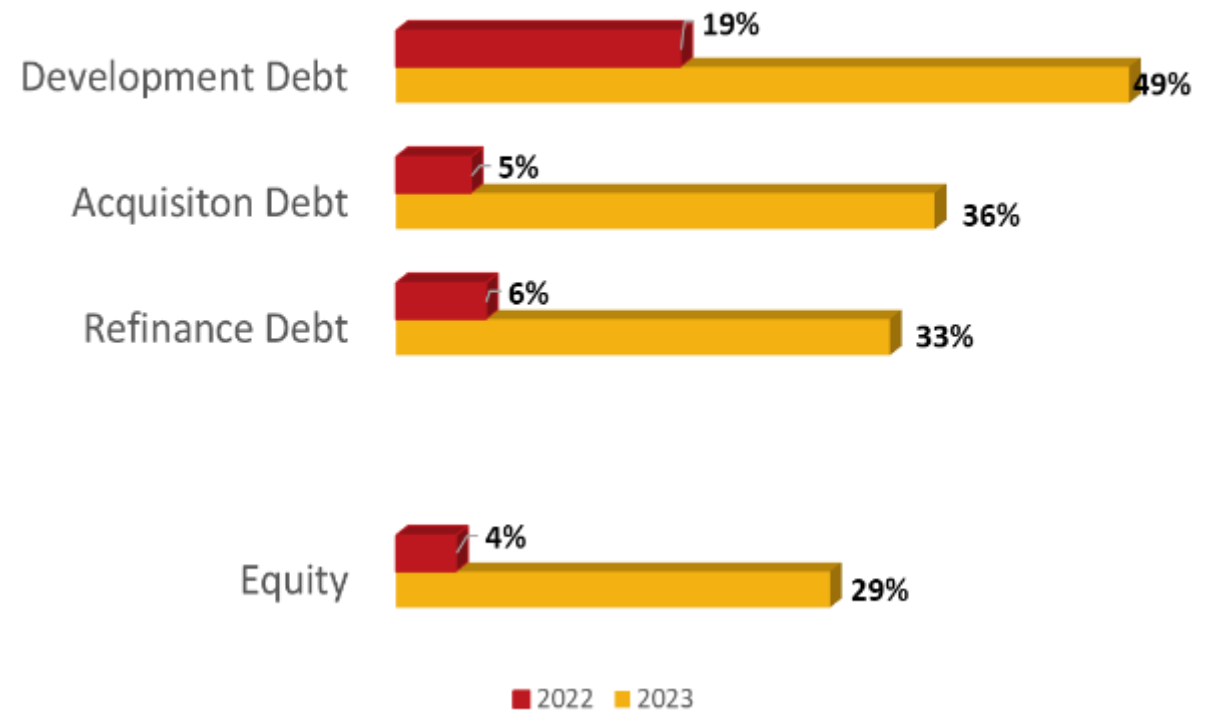
Capital Markets

Capital moves to the sidelines

Wait and see attitude and not a full retreat



Capital May be harder to find in 2023



Quality and niche still popular

Market bifurcation may become more prominent

- Winners are those property types exhibiting continued strong fundamentals
 - Industrial
 - Multifamily
- Best in class properties in more challenged sectors
 - Retail
 - Office
- Niche sectors continue to garner more acceptance
 - Life Science
 - Data Center
 - Self Storage



Finding a higher purpose

Less traditional demand may increase opportunities for adaptive reuse

Opportunities

- Reduced demand due to changing behavior may lead to rising obsolescence
- Reuse seen as a potential solution to multiple challenges
 - Affordable and subsidized housing
 - Last mile distribution
 - Meeting net zero carbon goals
- Possible adaptive reuse targets
 - Office to Residential
 - Hotel to Residential
 - Retail to Distribution

Challenges

- No cookie cutter plan to utilize
- Identifying the appropriate targets
- Every building will need a new approach
- Making the economics work

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Emerging
developments of
ongoing trends

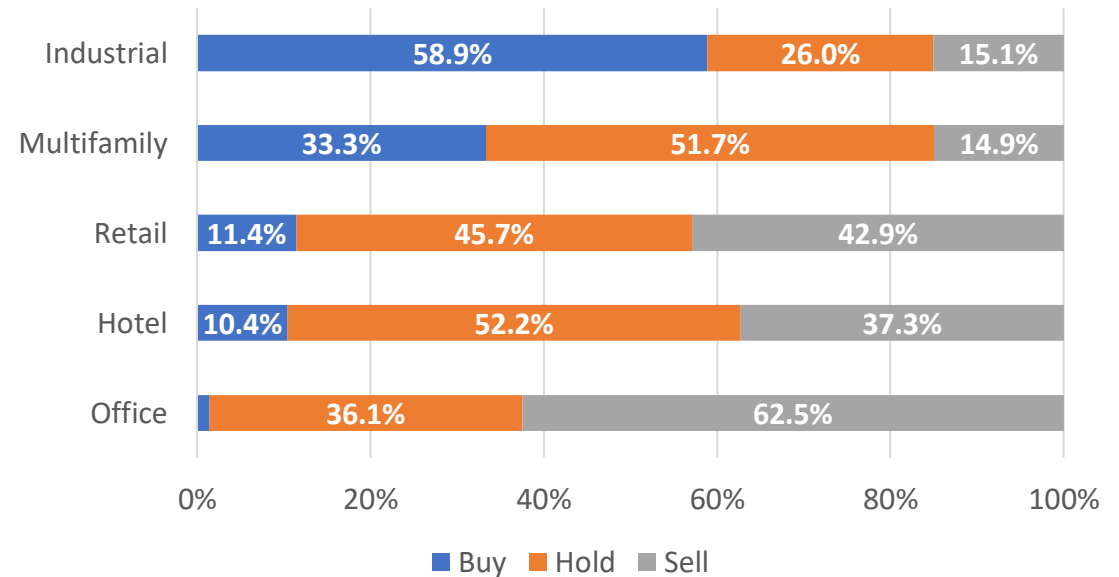
Let's Talk About Baltimore

Baltimore is recovering as industrial interest dominates

Local Market Perspective (1-5)

Category	Rank	Score
Investor Demand	76th	2.55
Homebuilding Prospects	58th	3.09
Economy	77th	2.85
Public & Private Investment	70th	2.87
Availability of Capital	76th	2.77

Overall Real Estate Prospects: #52 Homebuilding Prospects: #50



More Things About Baltimore...

- **The Appeal**

- Economic Drivers: Medical Center, Federal Government, Logistics
- Growing cybersecurity hub
- Strong transportation and distribution centers

- **Infrastructure**

- Maryland: C
- Not all bridges & roads
- Better than America: C-

- **Living**

- Multifamily – 2022 vacancy rates: 7.4%
 - 2023 (F): over 15,720 units deliverables
 - 2022 Average rent per unit: \$1,826 – Up 3.5%
- Home Ownership
 - Median sales price: \$292,000
 - Home sales are up 7.4% year-over-year

Source: PwC, Moody's Analytics, Redfin,
American Society of Civil Engineers

Too much for too many

Persistent attainable housing problem – Could get worse as affordability falls as a result of rising mortgage rates



Single
Family

- Housing affordability declines by 37%

Multifamily

- U.S. average apartment rents rise by over 15%

If these trends sound familiar

They are, but that is because they remain important

Smarter, fairer cities through infrastructure spending

Infrastructure no longer just roads and bridges

Climate change's growing impact

Climate risks will require a proactive approach

Action through regulation?

Regulation can bring clarity, but also unintended consequences

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The next couple of years may be bumpy, but we likely come out on the other side in an environment where the best operators differentiate themselves



Thank you

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