

Emerging Trends in Real Estate 2021

Real Estate Outlook 2021
November 5, 2020



The title is presented in a stepped, descending layout. The word 'Dealing' is at the top right, 'with' is in the middle left, 'Certain' is at the bottom right, and 'Uncertainties' is at the bottom left. The background consists of overlapping orange and dark grey rectangular blocks.

Dealing

with

Certain

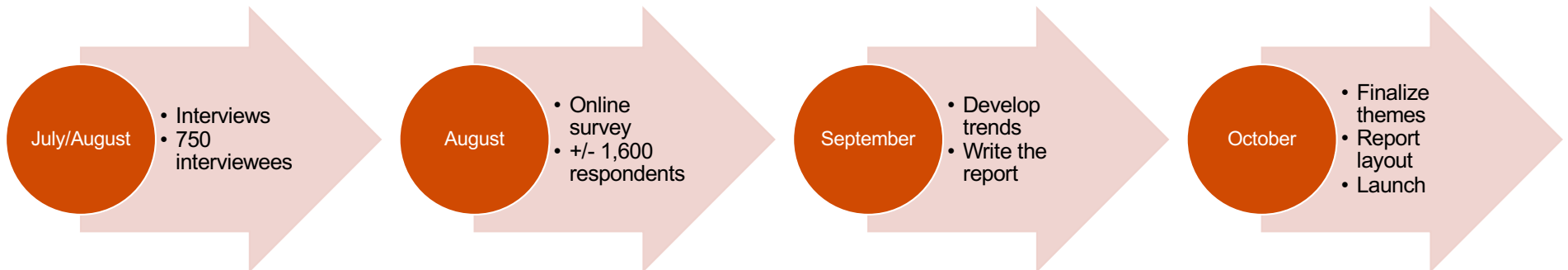
Uncertainties

Emerging Trends Timeline

Normal Year



Pandemic Year



What a difference a year makes

These were the key items we thought might be a problem at the end of the “Emerging Trends in Real Estate 2020” cycle

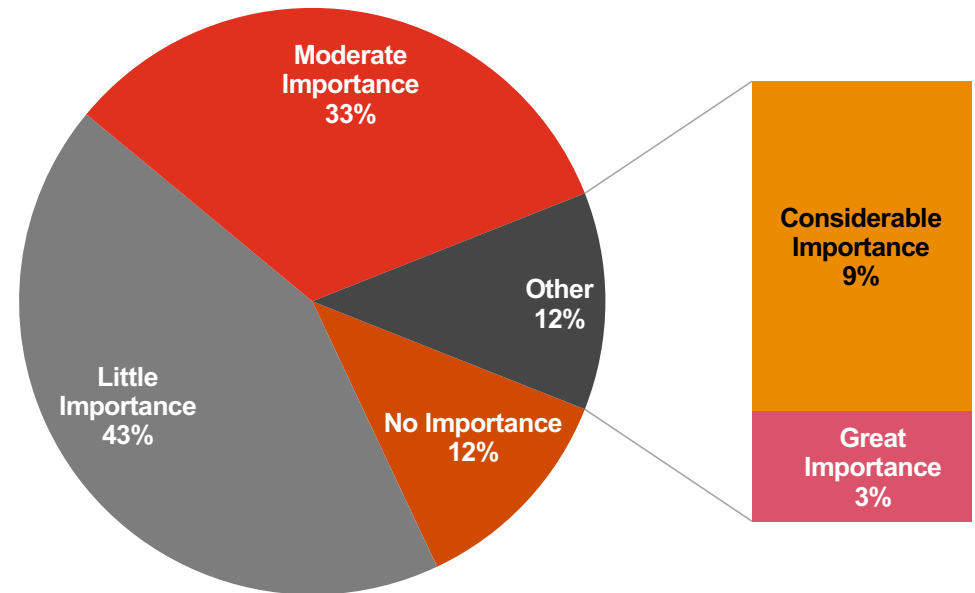
We just didn’t know how close some of them were!



Were you part of the 12%?

12% of Emerging Trends in Real Estate 2020 survey respondents felt that Epidemics would be of great or considerable importance to real estate in 2020

55% of the same group felt it would be of little or no importance



This is a temporary

Disruption,

What markets will

Lead going forward

Market rankings: Influenced by 2021 trends



2021 Top 10 Markets

- #1 Triangle Region, NC
- #2 Austin, TX
- #3 Nashville, TN**
- #4 Dallas/Fort Worth, TX
- #5 Charlotte, NC
- #6 Tampa Bay/St. Petersburg, FL
- #7 Salt Lake City
- #8 Northern VA Suburbs
- #9 Boston, MA
- #10 Long Island, NY



Trends influencing top markets

- 18 Hour cities continue to dominate the top 10
- Boston remains the only gateway market in 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

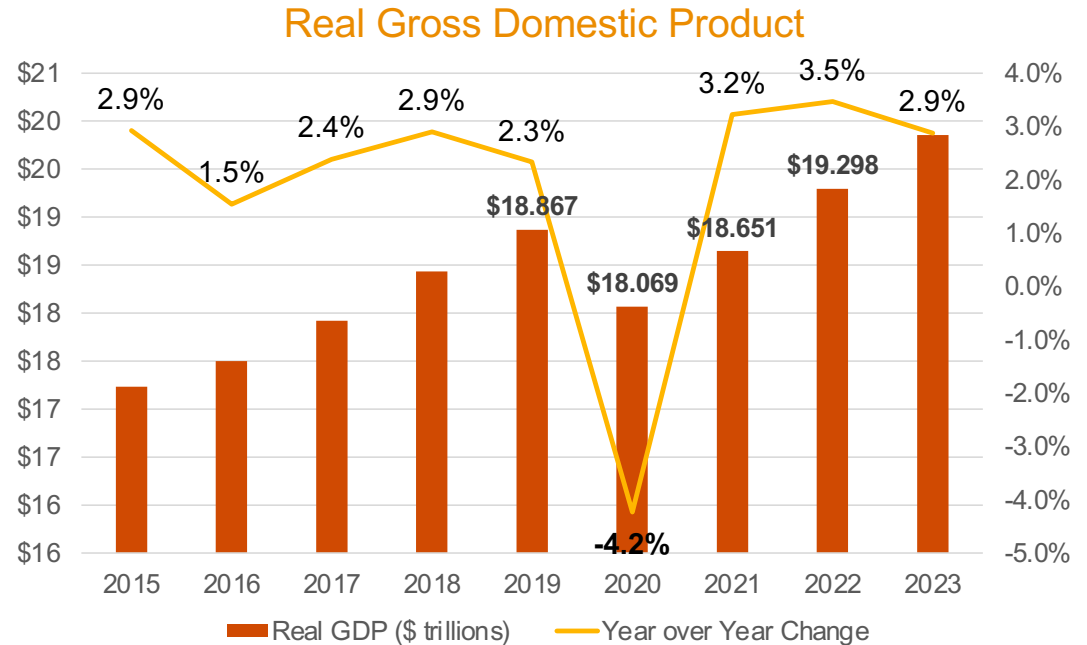


Accelerated
trends or
fundamental
changes

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

The Economy

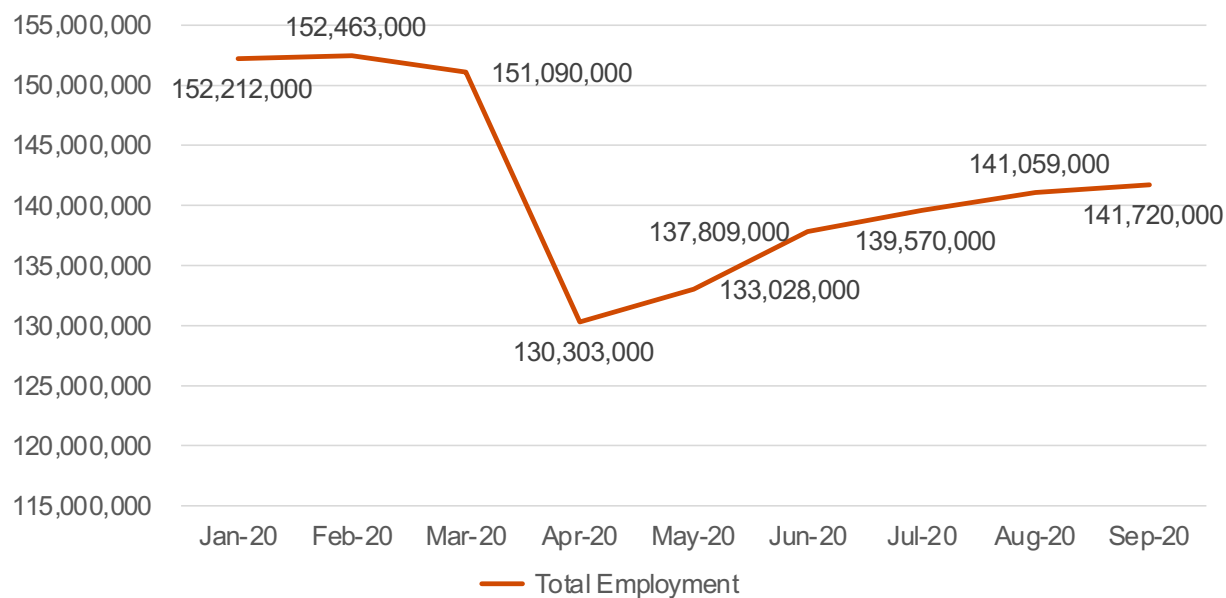
- Unprecedented mandated recession impacted population and businesses unevenly
- Federal Reserve monetary support has put a floor under asset prices
- Recovery has been mixed, outlook is for GDP and employment to be back at 2019 levels by 2022
- Confidence will be needed for full recovery
- Return to stable moderate growth in 2023



Sources: US Bureau of Economic Analysis, HIS Markit

Employment rebound slows

What shape is the recovery?

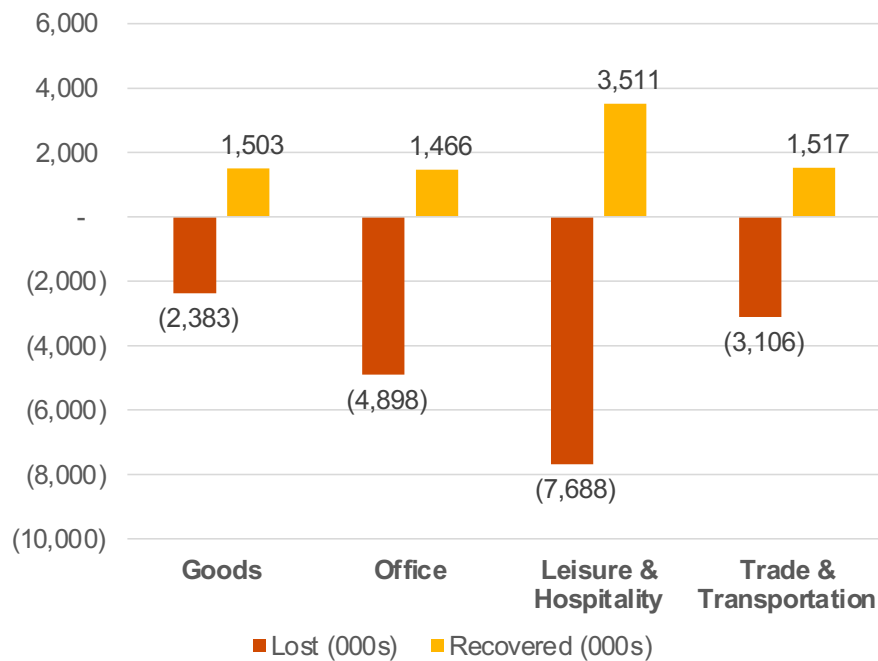


Source: US Bureau of Labor Statistics

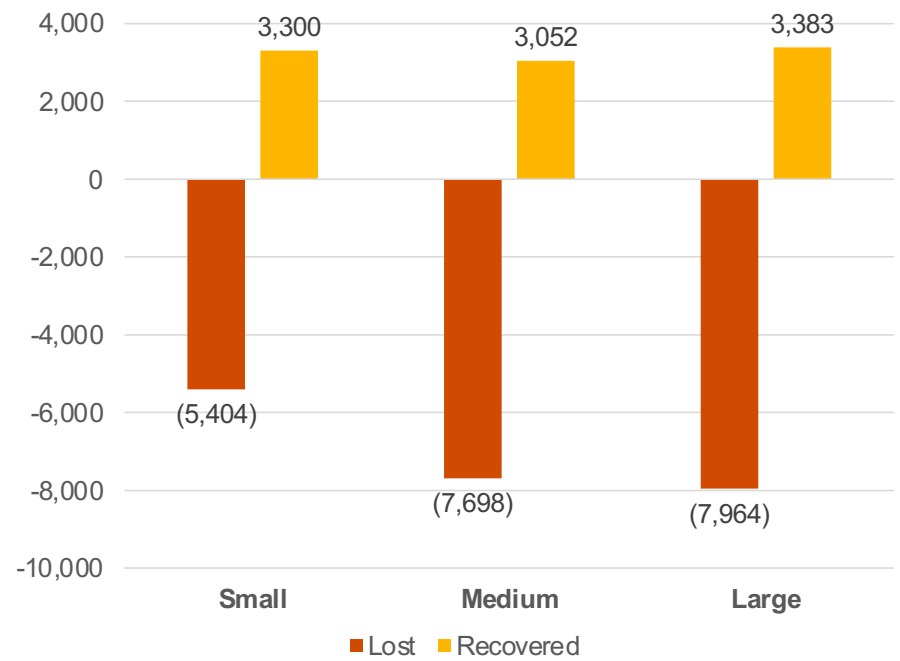
- Initial stimulus and monetary policy resulted in approximately 9 million of the 22 million jobs lost being recovered
- The reopening of local economies didn't hurt either
- Growth has slowed over the last two months as only 2 million jobs have been recovered
- What letter will the recovery resemble? V, U, W, K, Swoosh, ???

Potential headwinds to economic growth

Job change by sector February through September

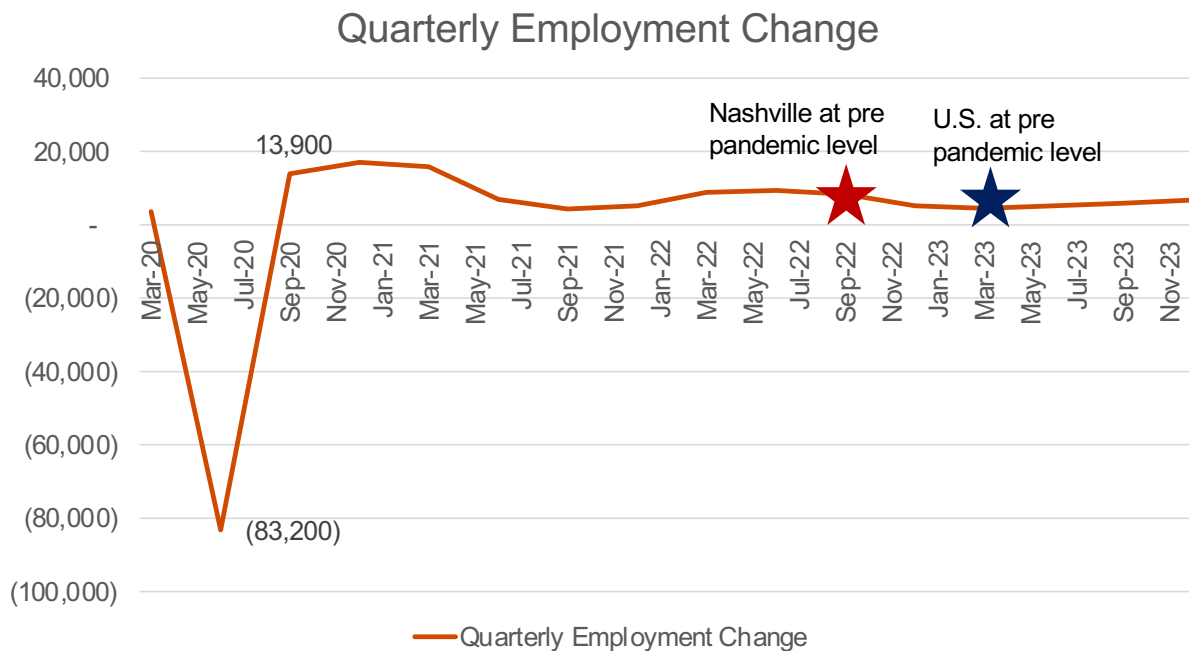


Job change by segment February through September



Source: ADP, PwC Research Analysis

Economic recovery will be different by market



- Nashville will likely exhibit a faster recovery than the U.S.
- Positive momentum from attractive business climate and affordable cost of living
- Speed of recovery will be dependent on development and acceptance of vaccine

Work from Home: Attitudes are changing

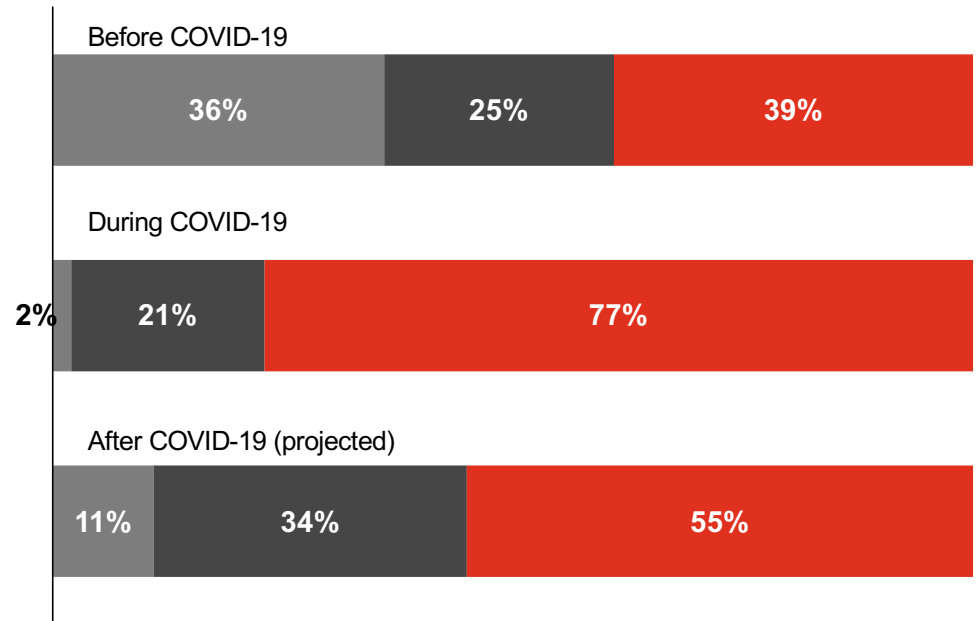


Work from home (WFH)

- 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 as term extends is engagement declining
- 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

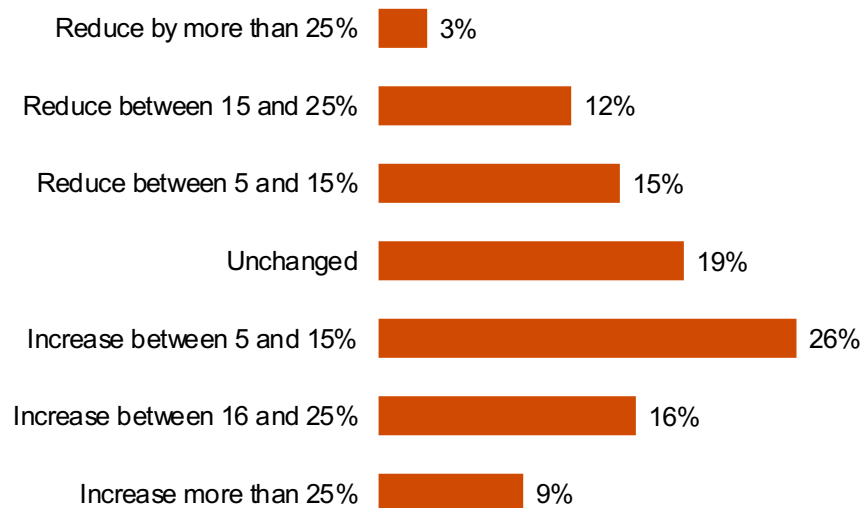
Work from Home: Office will still be relevant

51%

Expect to require more office space in 3 years than they have now.

What that space looks like is still in flux as firms are looking at reducing capacity through different office layouts

How do you anticipate your total office space needs will be different three years from now?

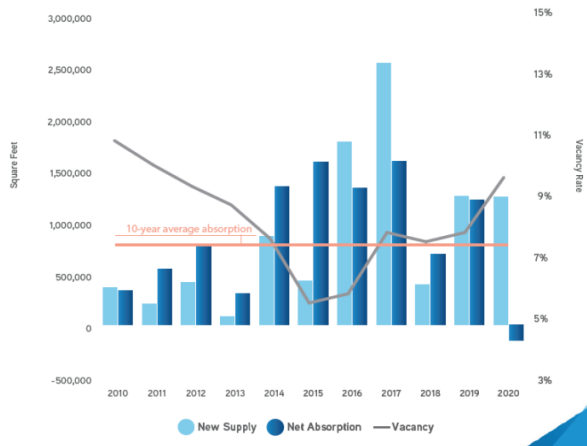


Source: PwC US Remote Work Survey, June 25, 2020

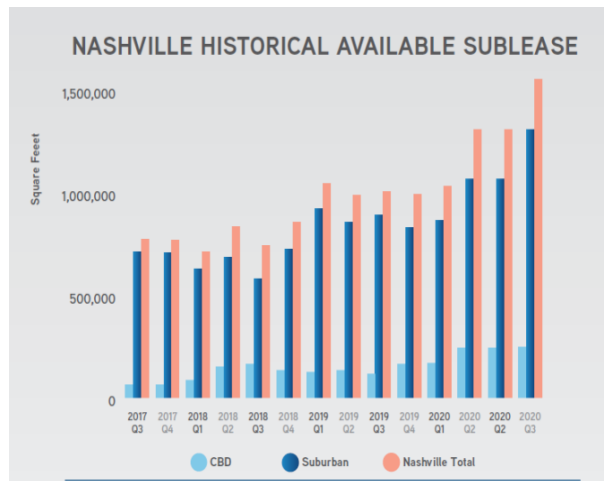
Office

Market well positioned for any potential disruption

NEW SUPPLY, ABSORPTION, & VACANCY

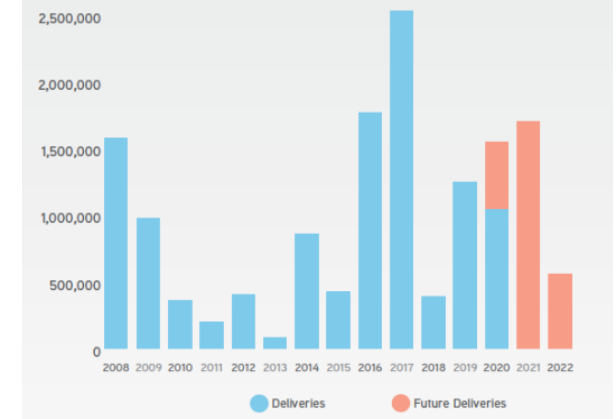


- Exhibiting positive momentum until 2Q 2020
- Vacancy increases part of market repositioning
- Immediate negative impact of shutdown has been manageable



- Sublease considered the first variable to look at for any lasting impact from WFH
- Sublease up over 800,000 sf in the last two quarters
- A variable to monitor going forward

NASHVILLE MARKET NEW DELIVERIES



- New deliveries reflect a very active market
- Pre-leasing reduces near-term risk
- New supply could slow due to construction, capital, and market issues

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”*

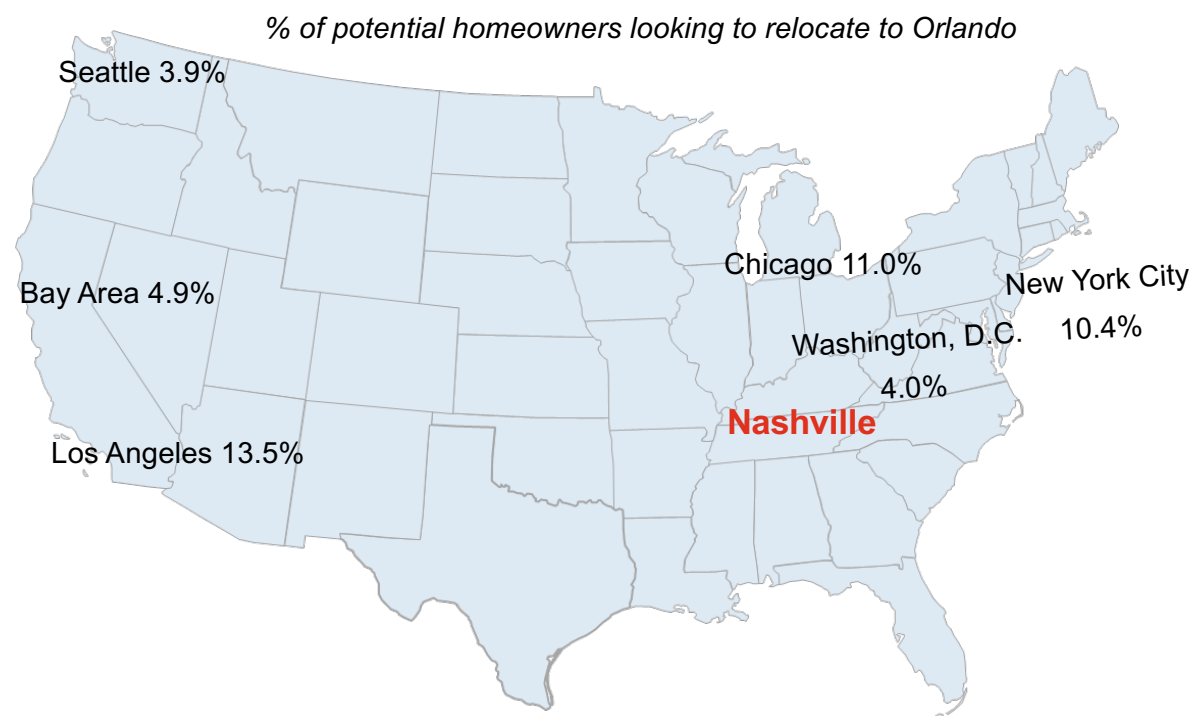
Top Outflow & Inflow Markets 3rd Quarter 2021

Net Outflow	# Households	Year/Year Change
New York City	25,584	23%
San Francisco	26,247	54%
Los Angeles	12,405	21%
Washington DC	8,249	54%
Chicago	4,415	44%
Net Inflow	# Households	Year/Year Change
Sacramento	8,070	79%
Phoenix	4,997	21%
Las Vegas	4,739	28%
Austin	4,617	54%
Atlanta	4,207	19%

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

Great American Move: Is the market an origin or a destination?

- Nashville continues to be a select destination for residents leaving “gateway” markets

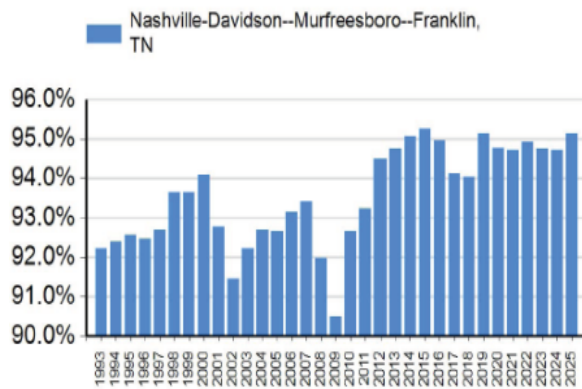


Source: Data provided by Redfin, a national real estate brokerage.

Multifamily

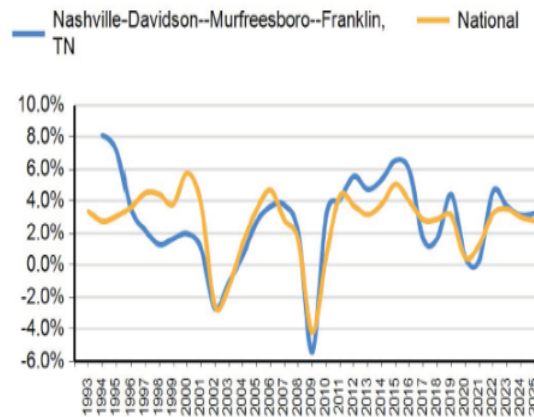
Stability during chaos

ANNUAL OCCUPANCY RATE



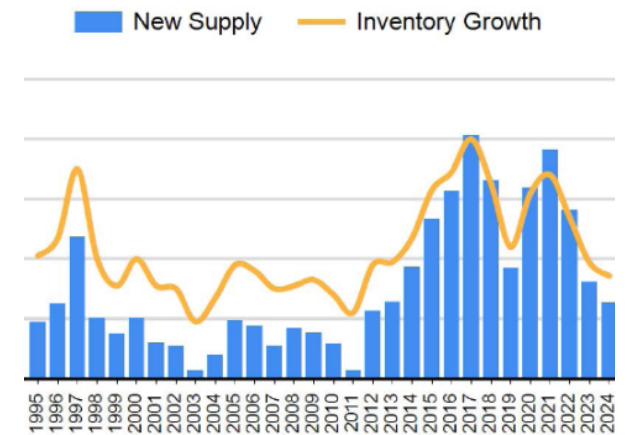
- **Occupancy remains high despite the pandemic**
- **Retention nationwide is up during to reluctance to move**
- **Lease while maintaining social distance**

ANNUAL EFFECTIVE RENT GROWTH



- **Rent growth holds on despite severe income disruption**
- **Holding rents steady in a tenant retention environment**
- **What happens when eviction moratoriums expire**

MF SUPPLY AND INVENTORY GROWTH



- **New supply needed, but will deliver at an interesting time**
- **Decrease in new supply good for existing properties, but won't help affordability issue**

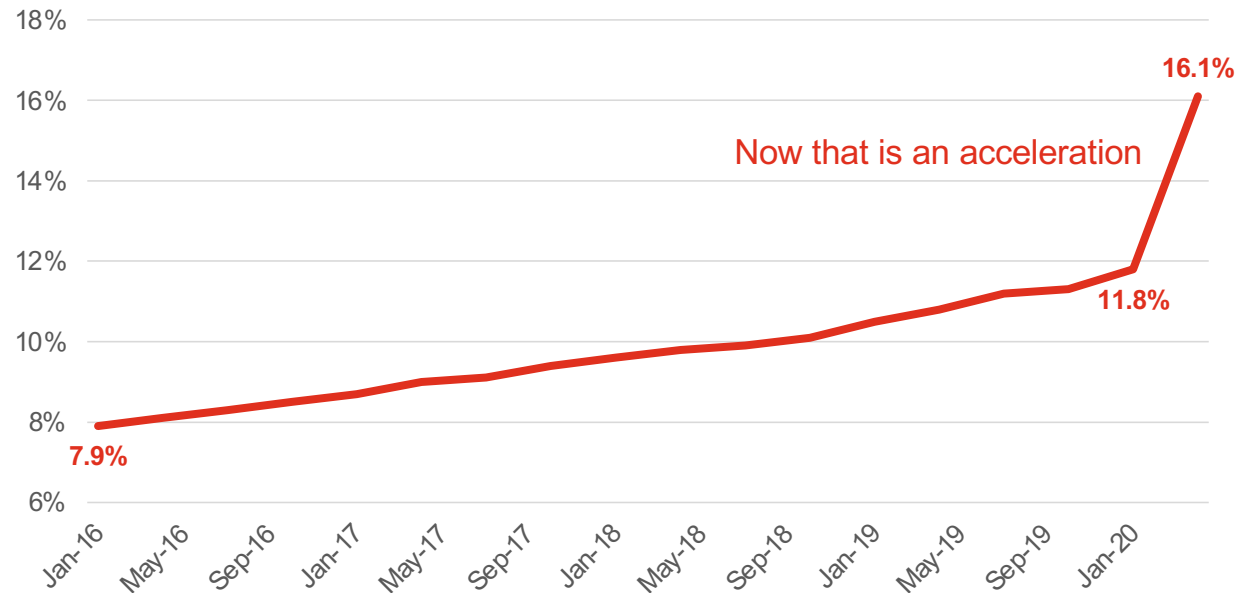
Retail Transformation: Fast forward on the evolution



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

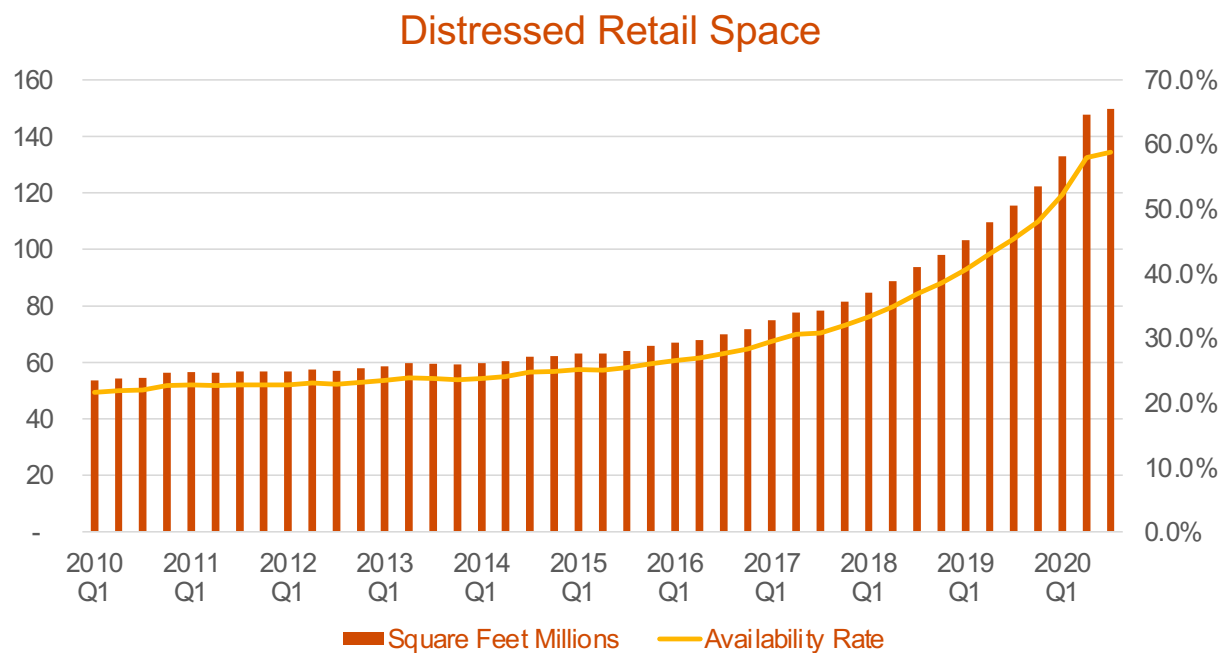
Ecommerce Sales as % of Total



Retail Transformation: Candidates for repurposing?

58.8%

Average availability rate of nearly 4,000 shopping centers representing 254 msf with a vacancy rate of at least 30%.



Source: CoStar, PwC Research Analysis

Retail

Says it all!

In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

What Nashville has going for it

- Growing population and employment
- Strong small business segment
- Strong fundamentals prior to the pandemic

Challenges

- Waiting on a vaccine
- Return of large business meetings and conventions
- New construction focused in urban locations

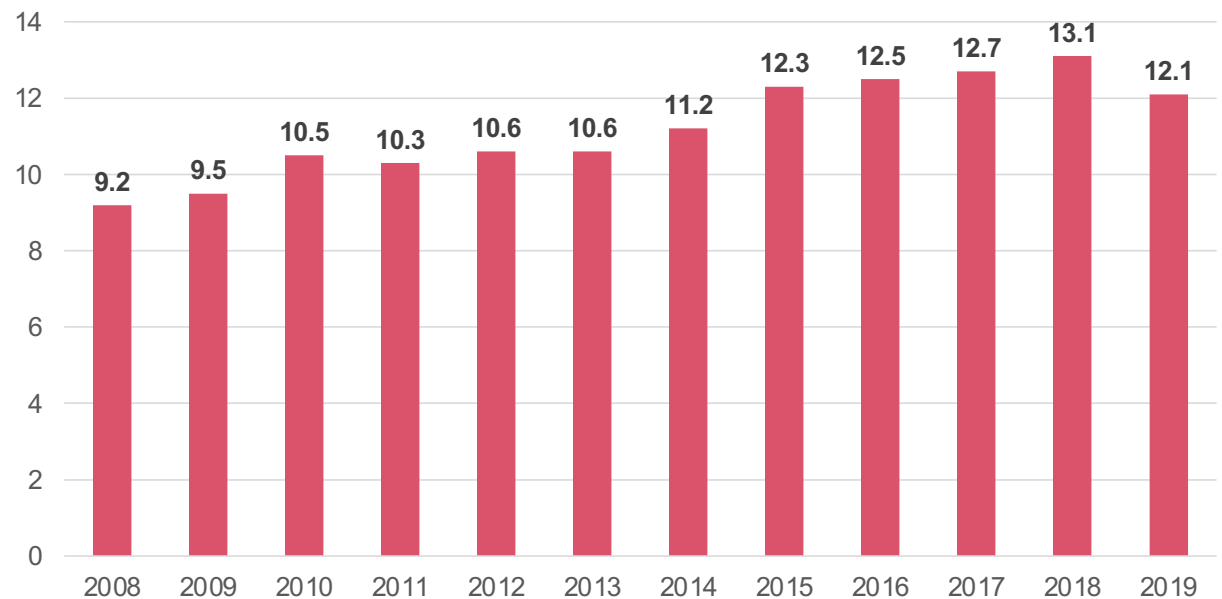
Just-in-Time to Just-in-Case: Industrial space gets a boost from supply chain concerns



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

Reshoring Index

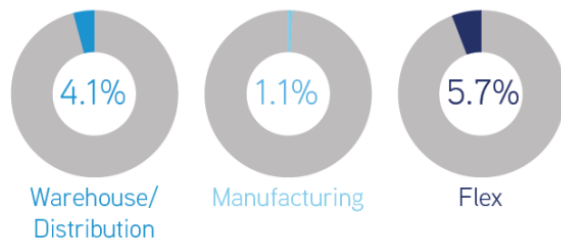


Sources: United States International Trade Commission, United States Department of Commerce, Bureau of Economic Analysis, Kearney analysis

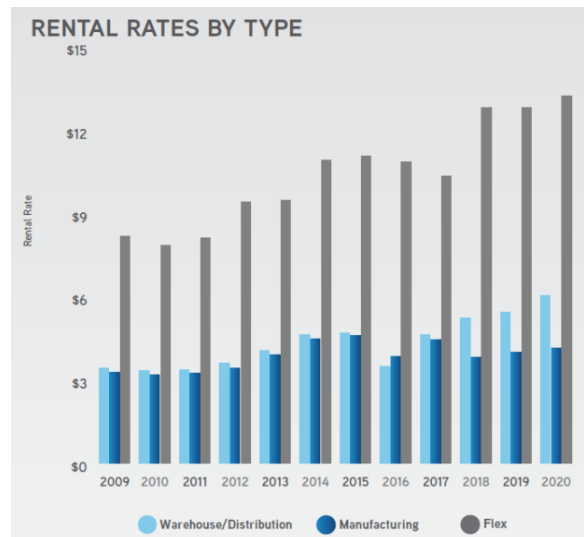
Industrial

Positive performance in a pandemic

VACANCY SNAPSHOT

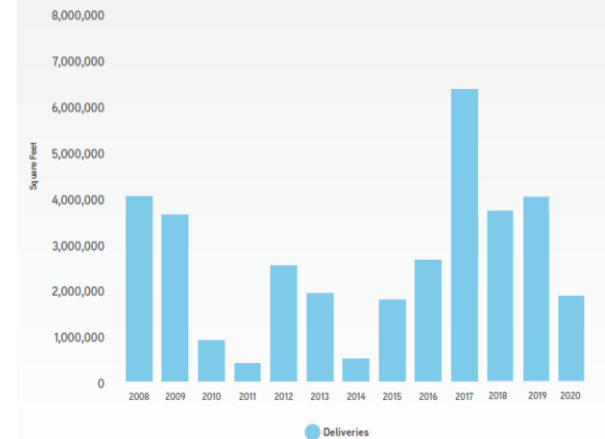


- Fundamentals across all subsectors reflect strength of the industrial market
- Trends going forward should support all three subsectors



- Rents continue to grow despite being in a recession
- Economic improvement should be a further tailwind

NASHVILLE MARKET NEW DELIVERIES



- 6 million square feet of product delivered in 2020 is not out of line
- Current level of construction is needed to meet expected demand

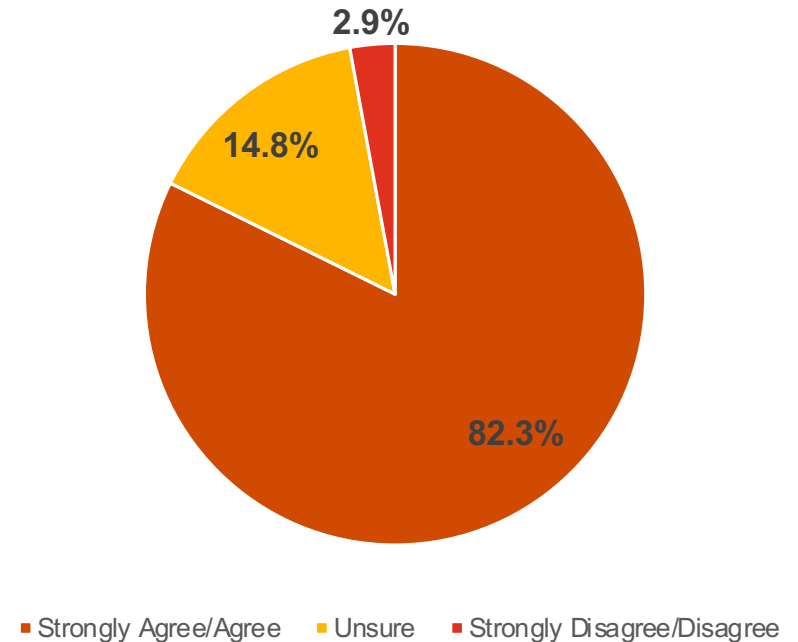
Location, Location, Safety: Enhanced health safety may become the norm



Location, Location, Safety

- Hesitancy of employees to return to work 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



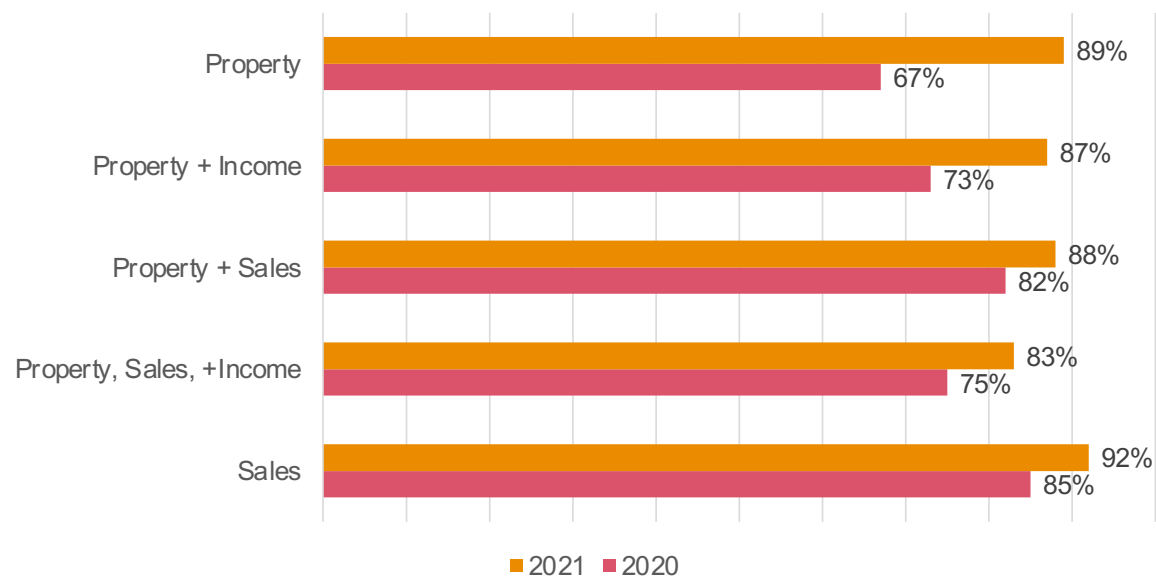
Fiscal Challenge: Cities will be challenged by pandemic related costs



Fiscal Challenge

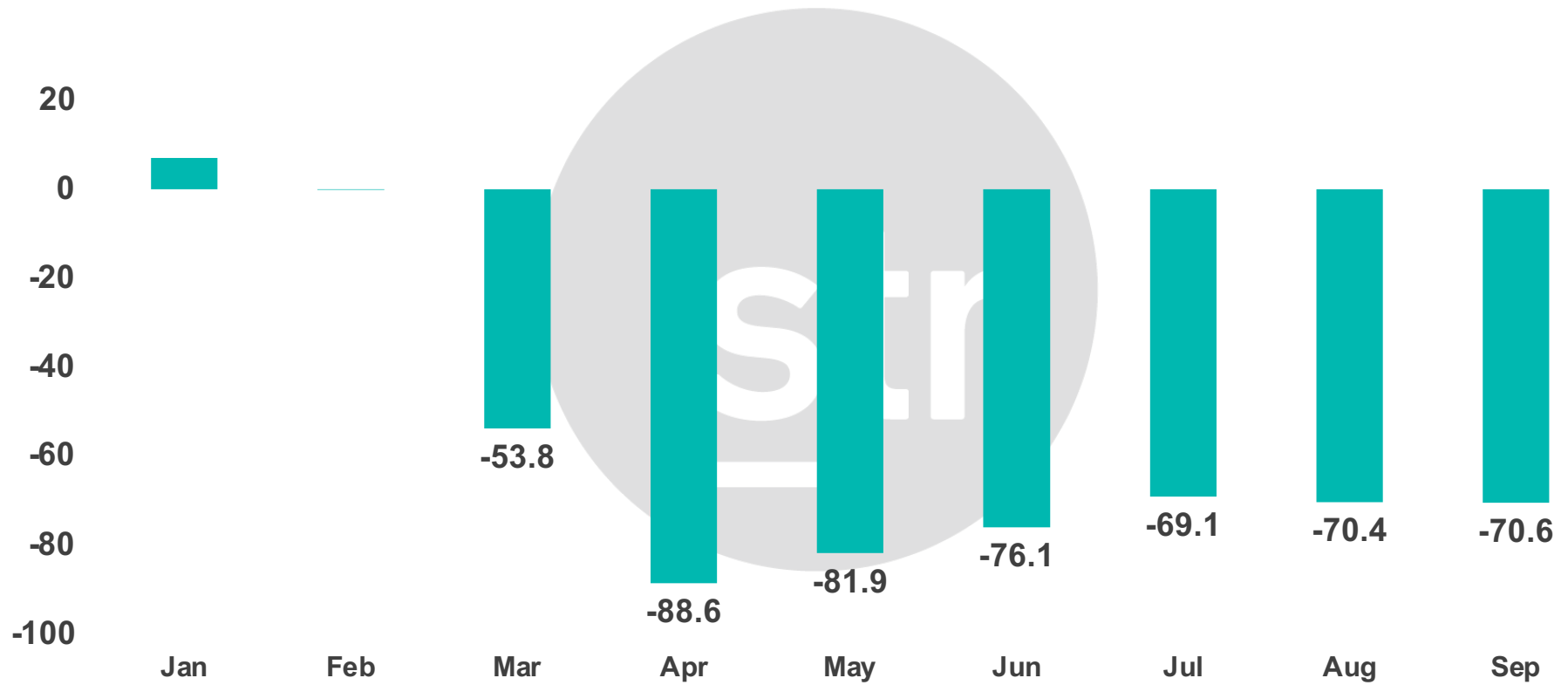
- States and cities faced with double impact of rising costs and falling revenue
- Timing and severity of revenue decline will depend revenue source
- A lack of federal funds may lead to immediate employee and service cuts
- Real estate could be faced with higher taxes and fees and municipalities look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

Share of Cities Less Able To Meet Fiscal Needs by
Year and Tax Structure



Monthly Nashville RevPAR Change: Not Really A Recovery Yet

Jan – Sep(p) 2020





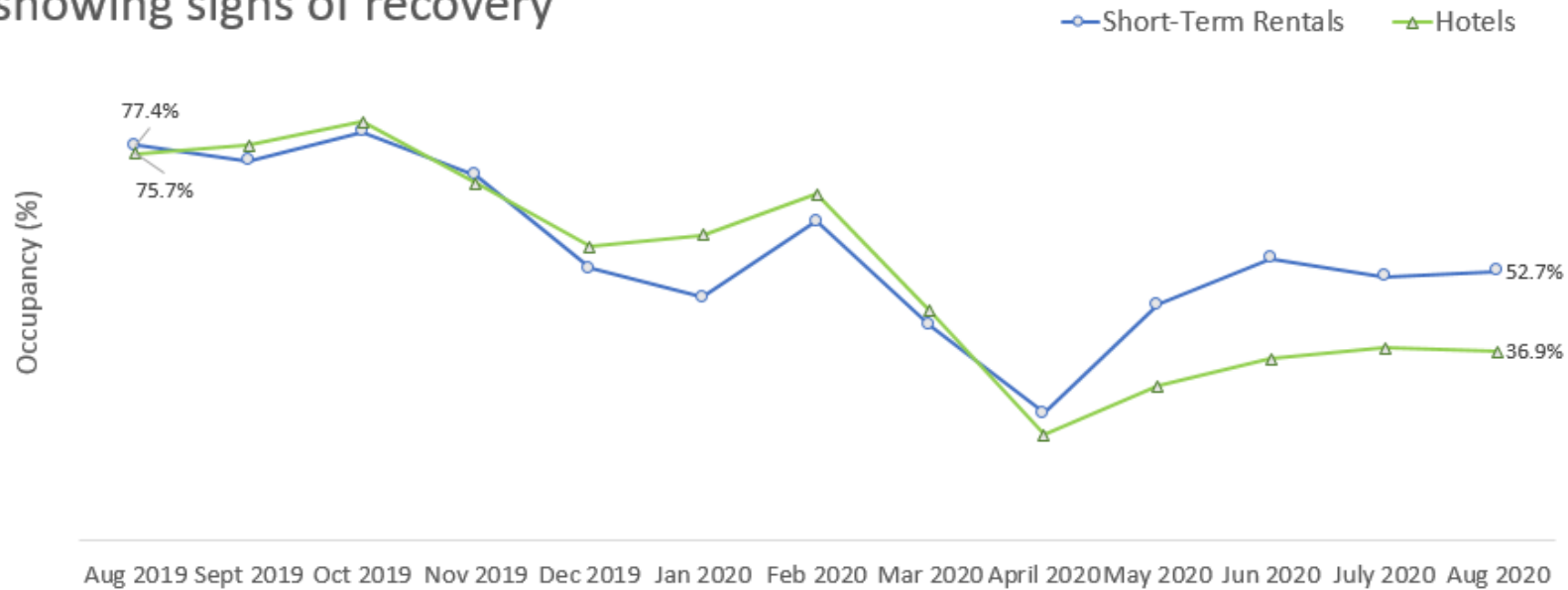
Nashville Segmentation: There Are No Groups

Segmentation KPIs, % change, September

	Transient	Group
Occupancy	-50.0	-94.5
ADR	-37.6	-22.5
RevPAR	-68.8	-95.7



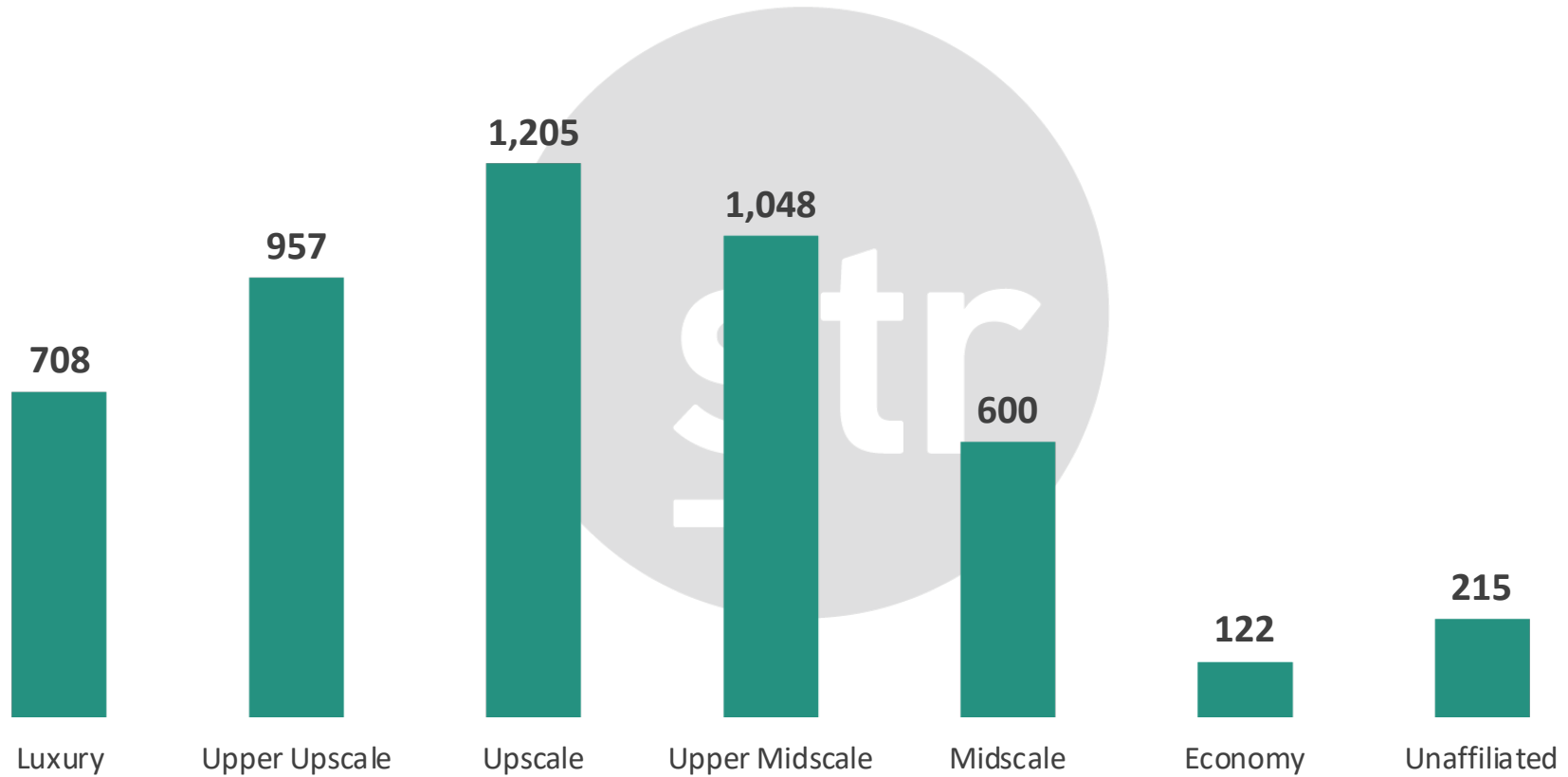
Short-Term Rental and hotel occupancy in Nashville showing signs of recovery



Nashville, TN Market
Monthly Occupancy Rate
Short-Term Rental Pilot Sample vs. Hotel Performance

Pipeline: Plenty of Activity

In construction rooms, '000s rooms, by scale, September 2020



Changes

On the margin

Will make

A difference



Questions?

Contact me at andrew.warren@pwc.com

Thank you



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