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WHERE THE FUTURE IS BUILT

# REAL ESTATE OUTLOOK

# 2024

**THURSDAY, JANUARY 25, 2024**

**8:00 AM – 12:30 PM**

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**New York**

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WHERE THE FUTURE IS BUILT

**THE MISSION OF THE URBAN LAND INSTITUTE:**

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APRIL 9-11, 2024 | NEW YORK CITY  
**SPRING MEETING**



Early Bird Pricing Ends 2/7! Register at [Spring.ULI.org](https://Spring.ULI.org)





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WHERE THE FUTURE IS BUILT

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# Emerging Trends in Real Estate 2024

## New York



January 2024





# 2024: Emerging Trends in Real Estate

- Provides one of the real estate industry's most predictive outlook
- The longest, continually published forecast: 45<sup>th</sup> edition
- Based on an extensive survey and numerous confidential interviews with industry leaders
  - 1,200+ survey participants
  - 600+ interviews
- Emerging Trends global with Europe, Asia Pacific, and Canada coverage
- Published by PwC in conjunction with Urban Land Institute

**Thank you to all who have participated!**



“

Unbuckle your seatbelts because it's probably going to be a slow, careful ride. **Disruption** won't happen like a roller coaster. It's gonna be slow going, and you're just gonna have to do your **homework** when it comes to specific details and specific places and specific property types.”

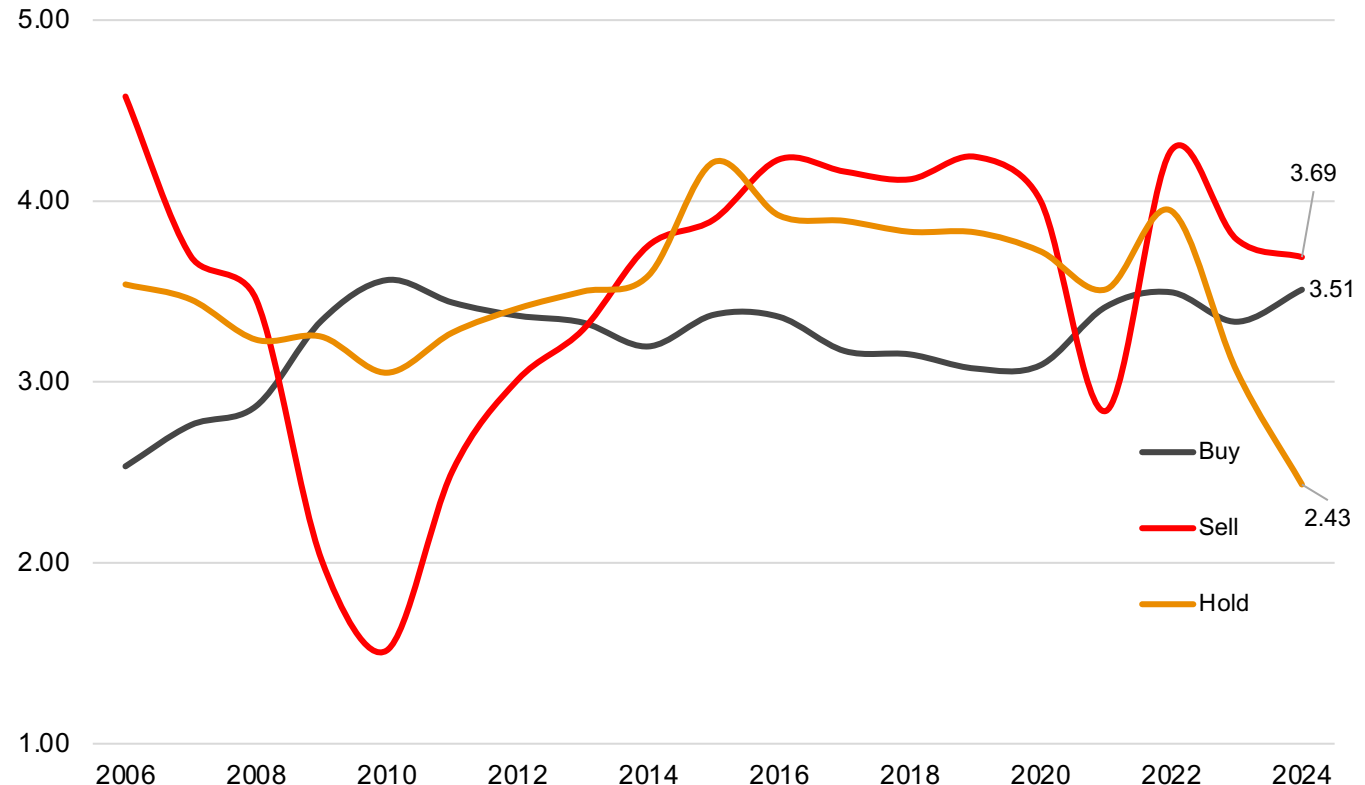




# 2024: A New Era Comes to Focus

- The great reset in the economy and commercial real estate
- Persistent “higher for longer” interest rates impacting investment strategies
- Itching to buy: investor attitudes
- Challenges in pricing and transactions and wide bid-ask spreads
- Navigating through varied investor outlooks; guarded optimism

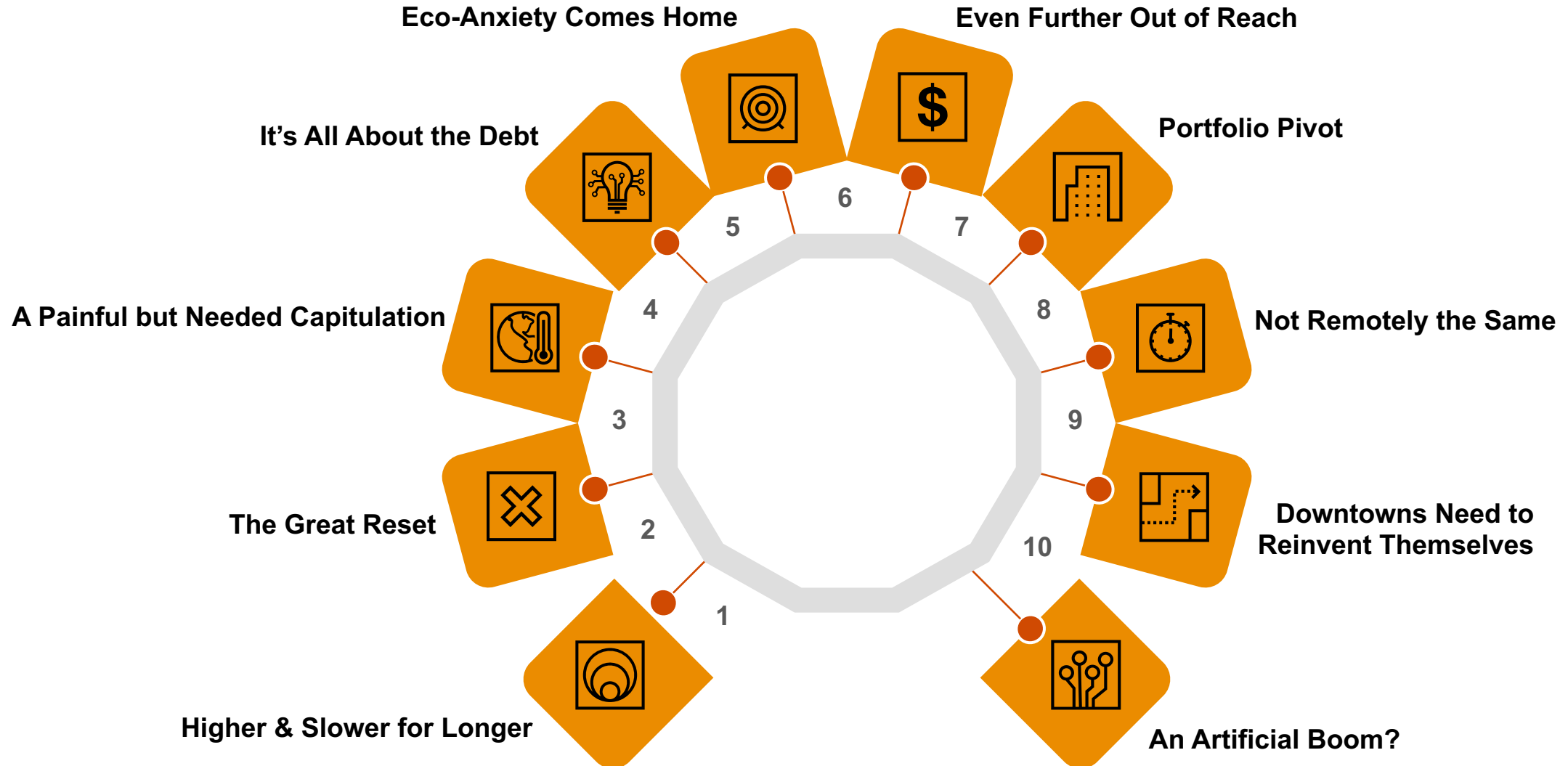
Emerging Trends Barometer  
(2006 - 2024)



Source: PwC Analysis; Emerging Trends in Real Estate | 1 – Abysmal 2 – Poor 3 – Fair 4 – Good 5 - Excellent

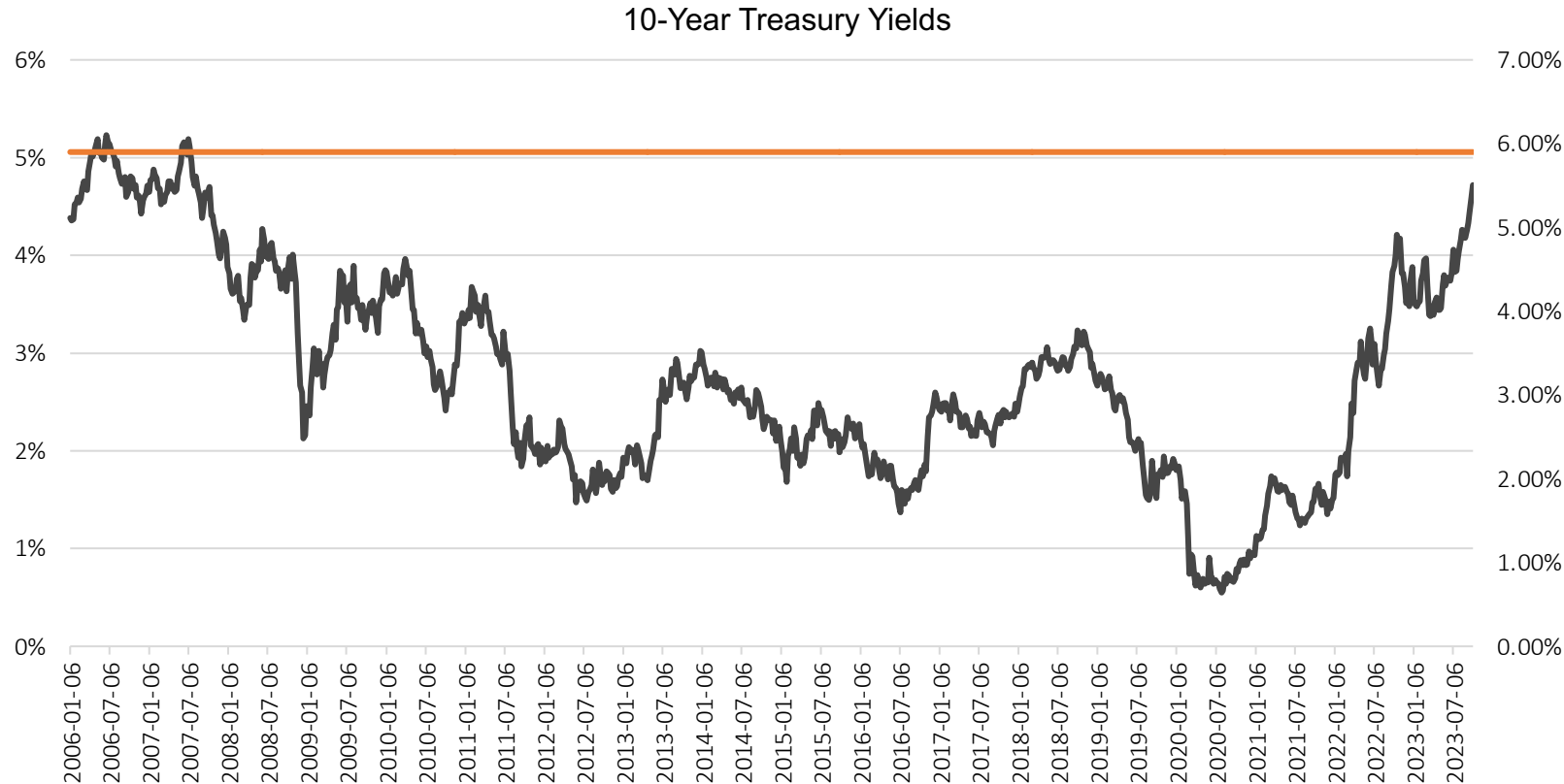
PwC | Emerging Trends in Real Estate 2024 | Proprietary and confidential. Do not distribute.

# 2024: Emerging Trends in Real Estate





# 2024 Trend: Higher & Slower for Longer



## Highlights:

- Growing consensus of “soft landing”
- “Slower for longer” may avoid a recession, but does not bode well for CRE
- Rates are likely to remain high, demand for space may decline
- Cost of capital impacts investment strategies

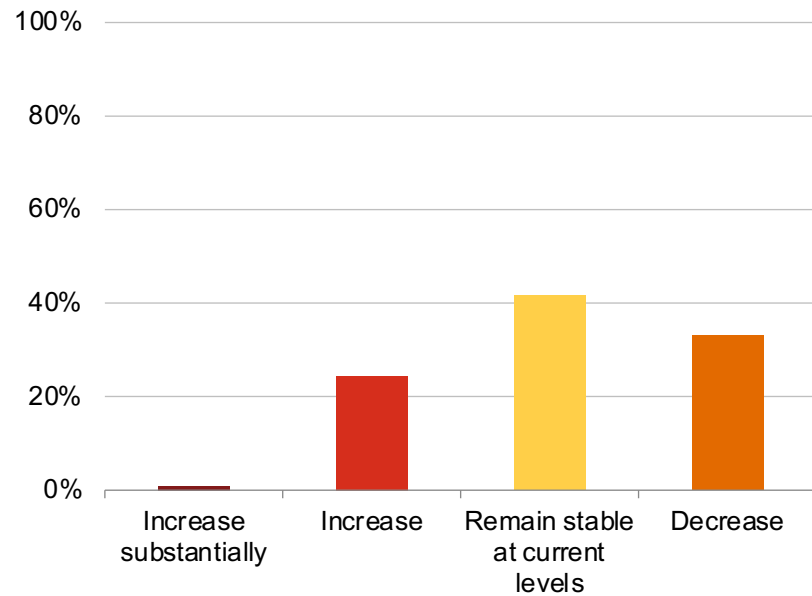
Source: Moody's Analytics | Orange line represents long-term average from 1962 to Oct-2023

# 2024 Trend: **The Great Reset**

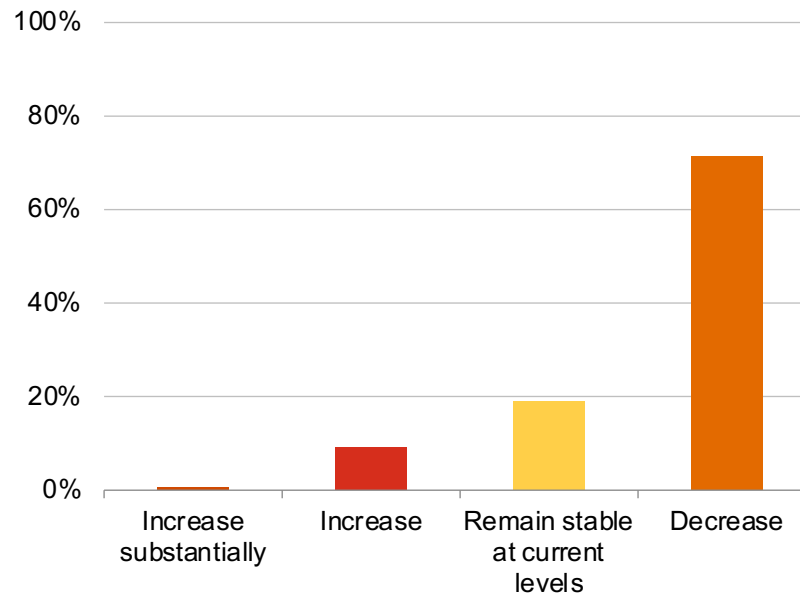
“I think this realignment period is less dramatic, less emotional than the realignment after the Great Financial Crisis or even the pause during the early moments of the pandemic.”

## Investor Return Expectations

2024



Next 5 Years



## Highlights:

- Higher interest rates w/ slower growth
- Market activity approx. 25% below the 2015-2019 average
- Decline in property values paves way for next investment wave
- Not all sectors negatively impacted – office strongly influencing perception

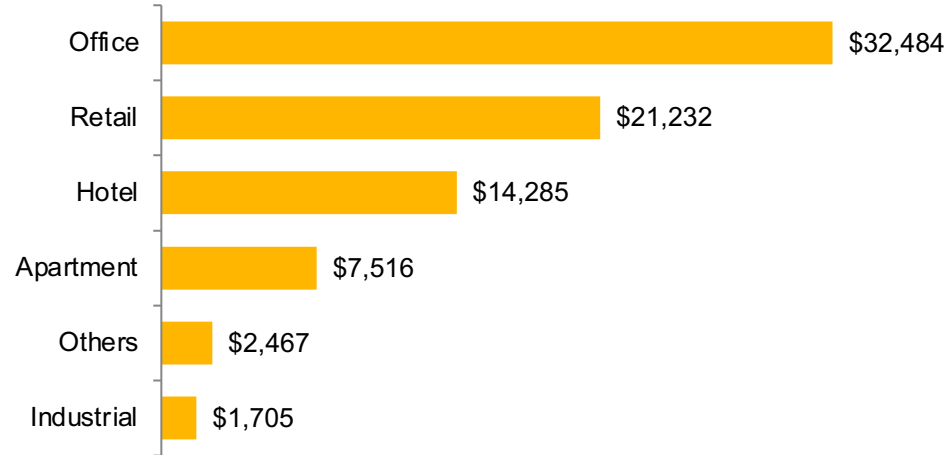
Source: PwC Analysis; Emerging Trends in Real Estate; US Respondents Only

PwC | **Emerging Trends in Real Estate 2024** | Proprietary and confidential. Do not distribute.

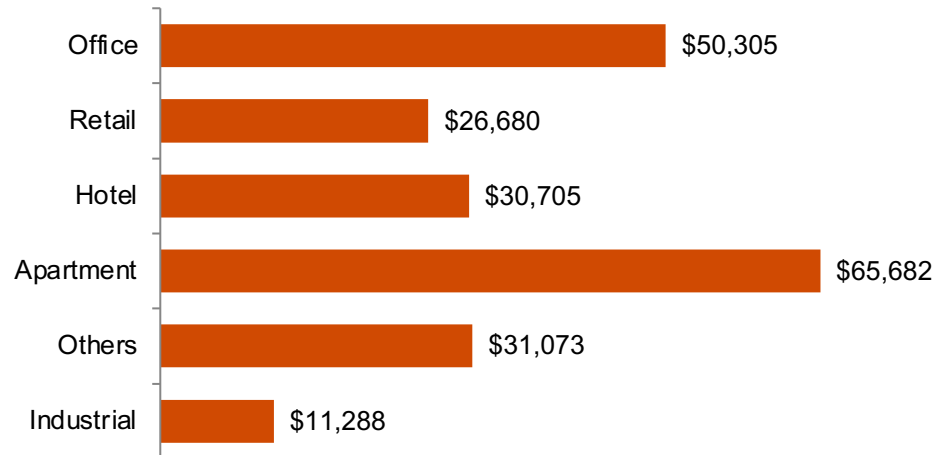


# 2024 Trend: A Painful but Needed Capitulation

## Outstanding Distress (\$m)



## Potential Distress (\$m)



## Direct Class A Office Vacancy

4Q 2019

2Q 2023

10.1%

Downtown

18.3%

Downtown

13.1%

Suburban

19.3%

Suburban

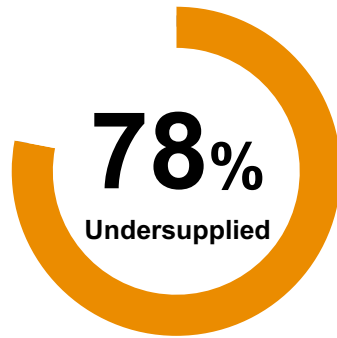
## Highlights:

- “Haves vs have nots”
- Class B building owners facing decision dilemma
- Successful conversions dependent on location & quality

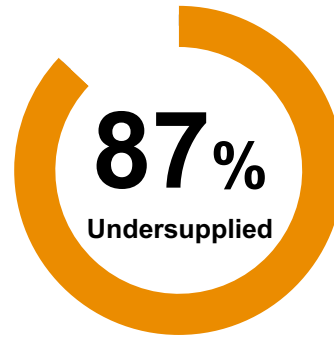
Source: PwC Analysis; Real Capital Analytics October 2023; Colliers International

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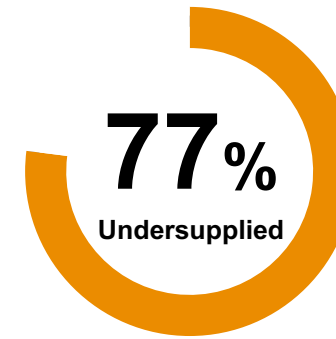
# 2024 Trend: **It's All About the Debt**



**Acquisitions**



**Development**

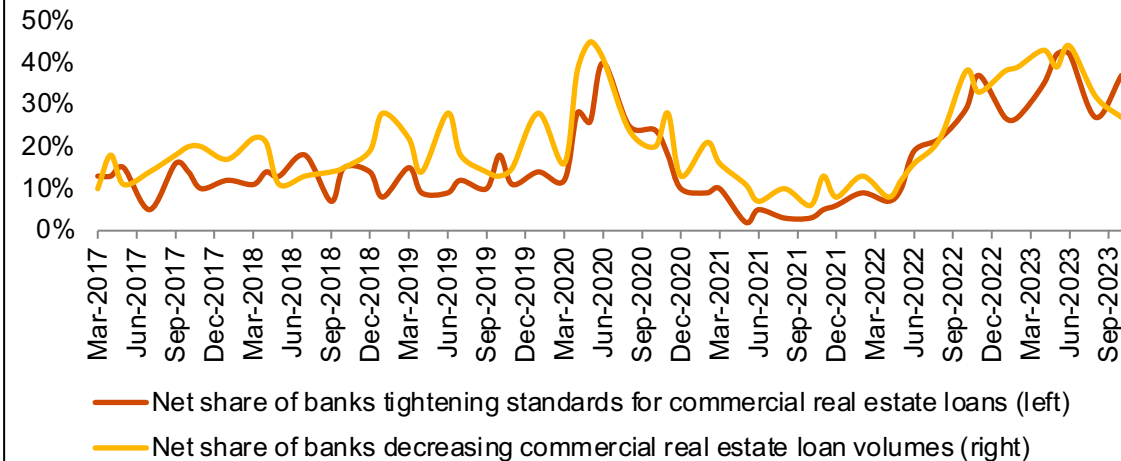


**Refinancing**

## Highlights:

- Banks sitting on the sidelines
- “Extend and pretend” changing
- Significant amount of mortgage debt expiring during 2024 and into 2025
- Current market dynamics have given rise to the adage “Survive until ’25”

**Commercial Real Estate Loans: Standards and Volumes**



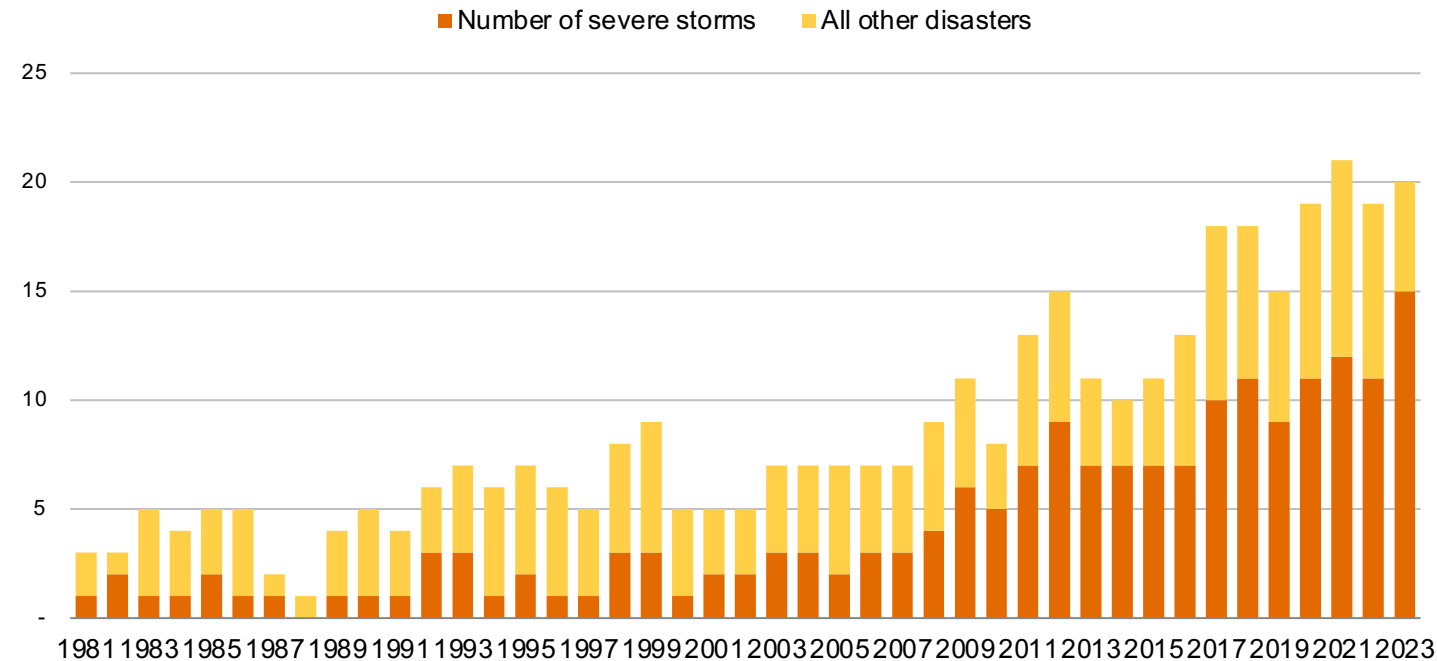
Source: PwC Analysis; Emerging Trends in Real Estate; Nelson Economics Analysis of Federal Reserve Bank of Dallas Banking Conditions Survey



# 2024 Trend: **Eco Anxiety Comes Home**

## Annual Number of Billion-Dollar Climate Events

Two-Year Moving Average, CPI-Adjusted

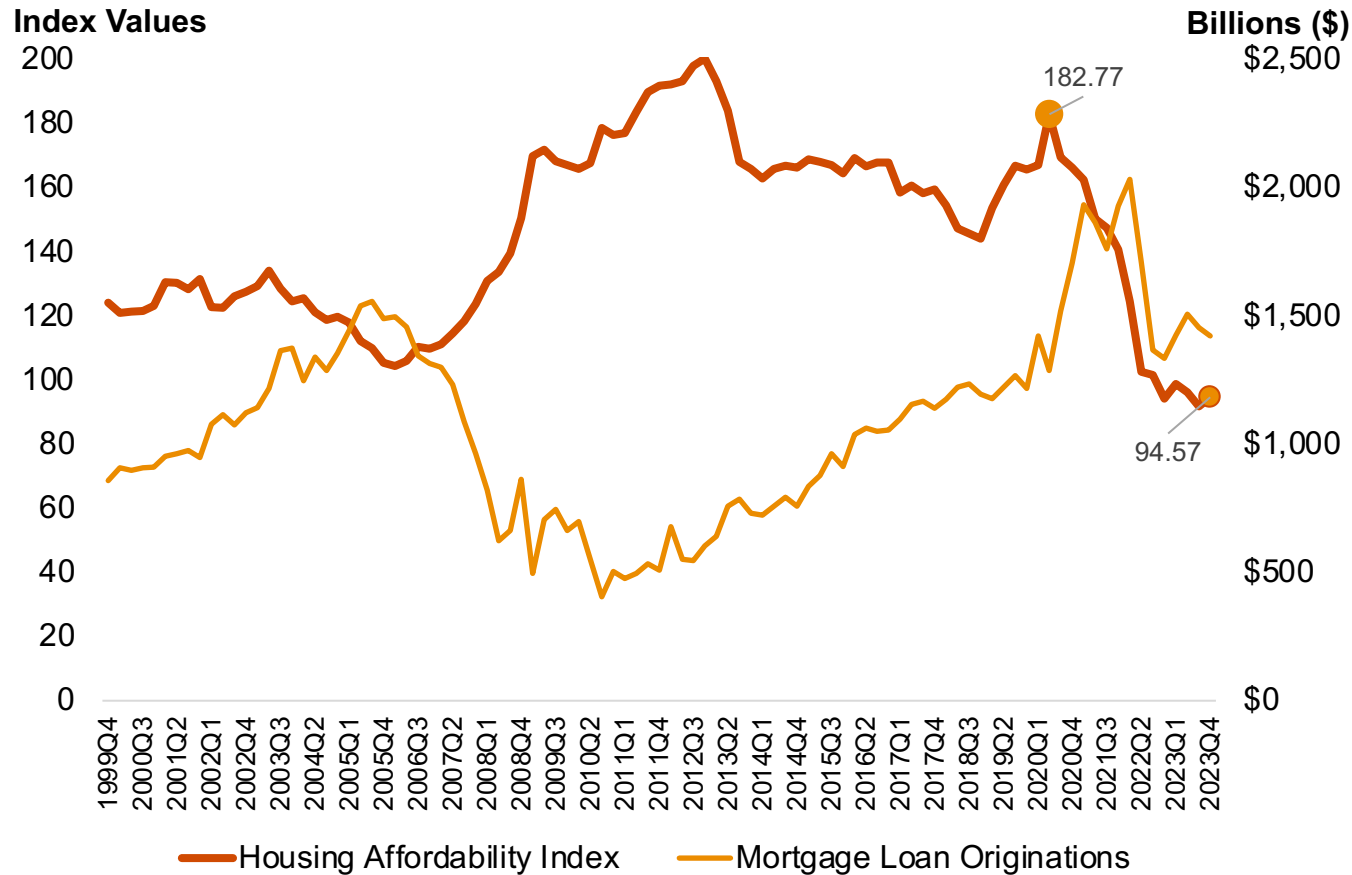


### Highlights:

- Climate risk impacting real estate valuations
- 2023 among hottest years on record
- Financial performance increasingly tied to sustainability
- Insurance challenges – dwindling availability in high risk markets like CA and FL
- Asset managers juggling ESG mandates and pushback from activists and return expectations

Source: PwC Analysis; NOAA National Centers for Environmental Information (NCEI) "U.S. Billion Dollar Weather and Climate Disasters" (2023)  
\*2023 figure projected based on actual figures through October 10

# 2024 Trend: Even Further Out of Reach



**2020**

**\$67,712**  
Salary

**\$400,000**  
SFH Price

**3.5%**  
Interest Rate

**\$1,836**  
Monthly Payment

**33%**  
Percent of Salary



**2023**

**\$72,872**  
Salary

**\$400,000**  
SFH Price

**8.0%**  
Interest Rate

**\$2,748**  
Monthly Payment

**46%**  
Percent of Salary

## Highlights:

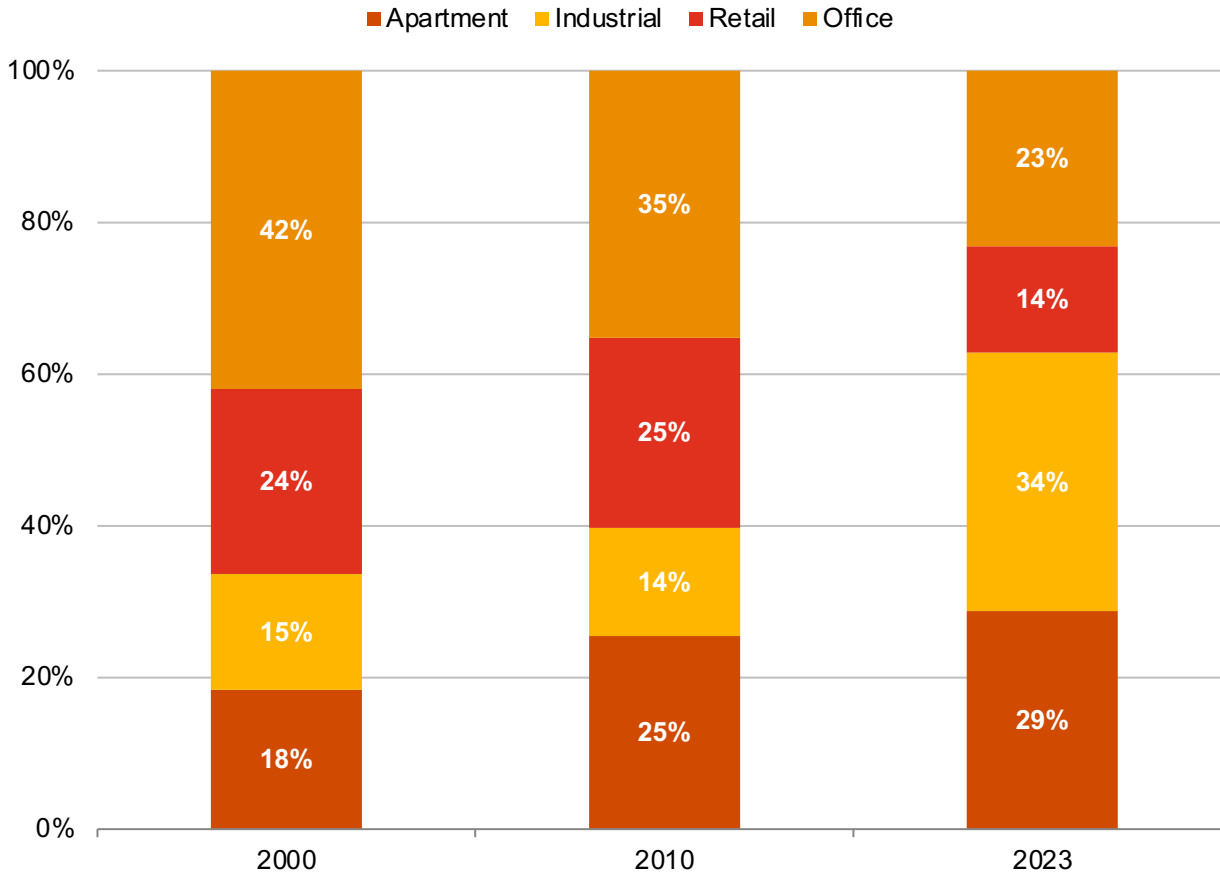
- Affordability at near 40-year low
- 30-year fixed rate rise from 3.0% to 7.7% post pandemic
- Rent growth peaked at 15% in 2022

Source: PwC Analysis; National Association of Realtors

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# 2024 Trend: Portfolio Pivot

NPI: % of Total Market Value by Sector



Source: PwC Analysis; NCREIF; 2020 and 2010 data as of 4Q whereas 2023 data as of 3Q

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“The definition of core industrial is expanding to include cold storage and self-storage, while core MF includes student housing and SFR.”

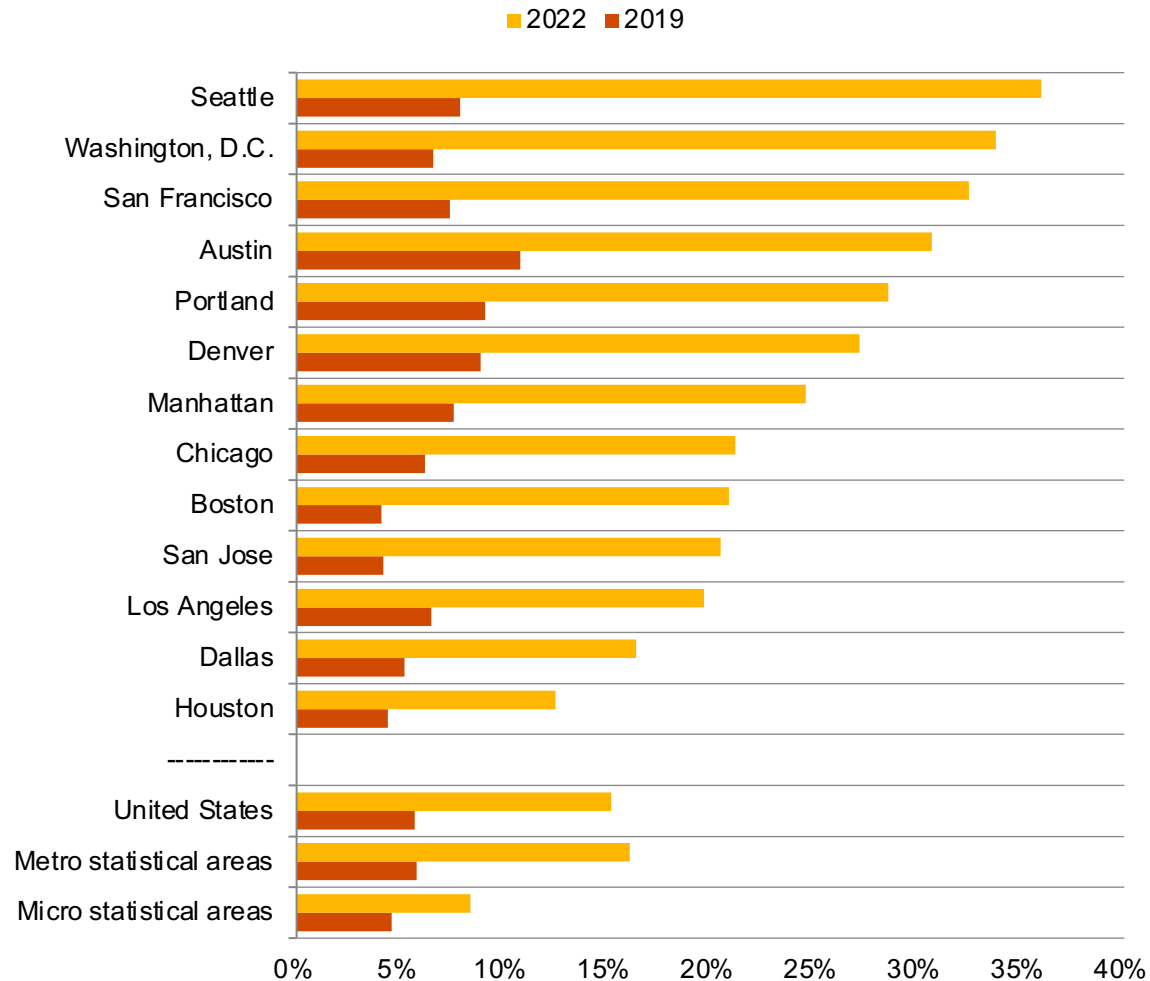
## Highlights:

- Portfolio managers facing number of challenges
- Decisions on disposing devalued assets and market re-entry
- Evolving risk profiles – “core” vs “value-added” vs “opportunistic”



# 2024 Trend: **Not Remotely the Same**

## Share of Residents Working from Home



Source: PwC Analysis; U.S. Census Bureau, American Community Survey

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“After the pandemic, people started to ask questions like, does everyone need to be in every day? Can we then get more efficient and hotel and maybe go to two, three days?”

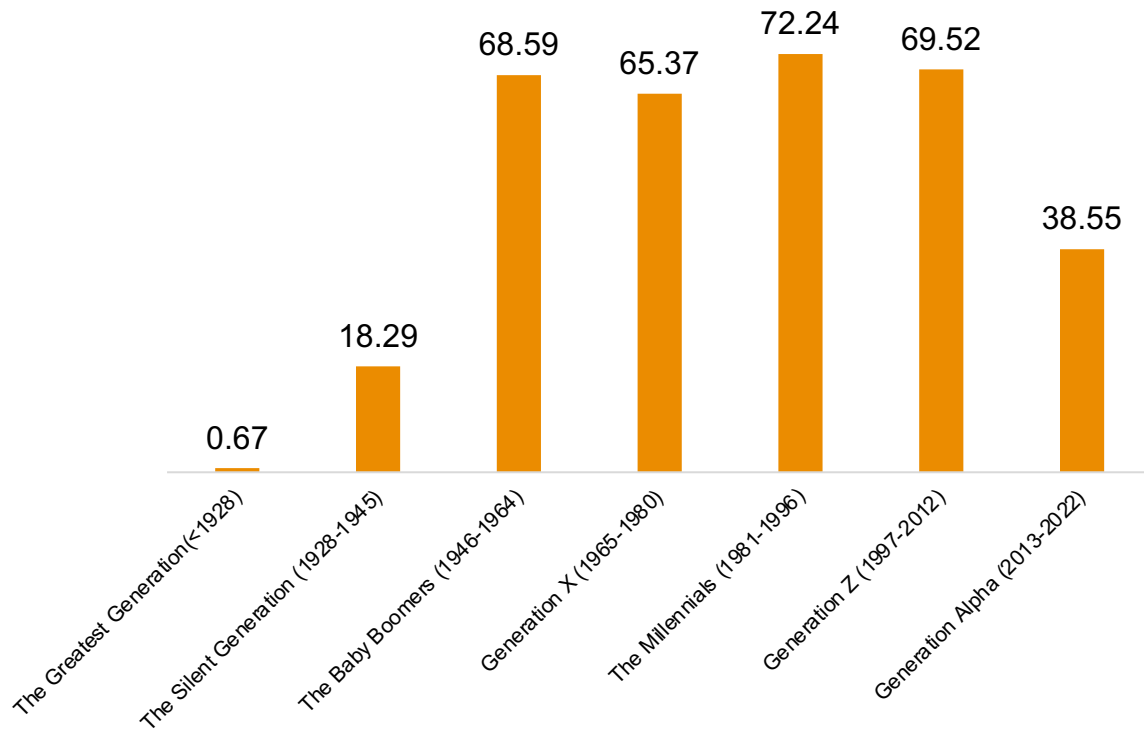
### Highlights:

- Introduces optionality – specifically for relocation or extending commutes
- Adverse impact to office sector but positive impacts on the housing sector or other metros and suburban communities

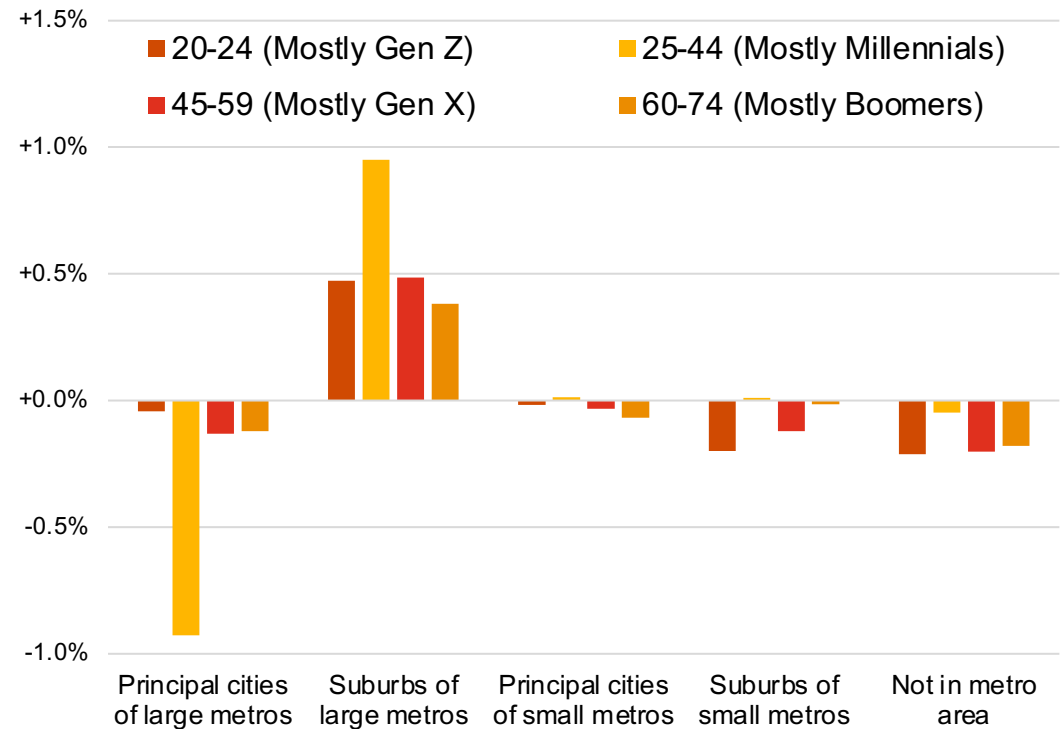
# 2024 Trend: **The Downtown Reinvention... Again!**

**“The nature of work is changing, and some cities are better positioned than others for the new changing work styles. Bigger cities are better positioned because if you can offer a live/work/play environment, commutes can be shorter -- it's about live-work integration.”**

**U.S. Resident Population in 2022  
(in millions)**

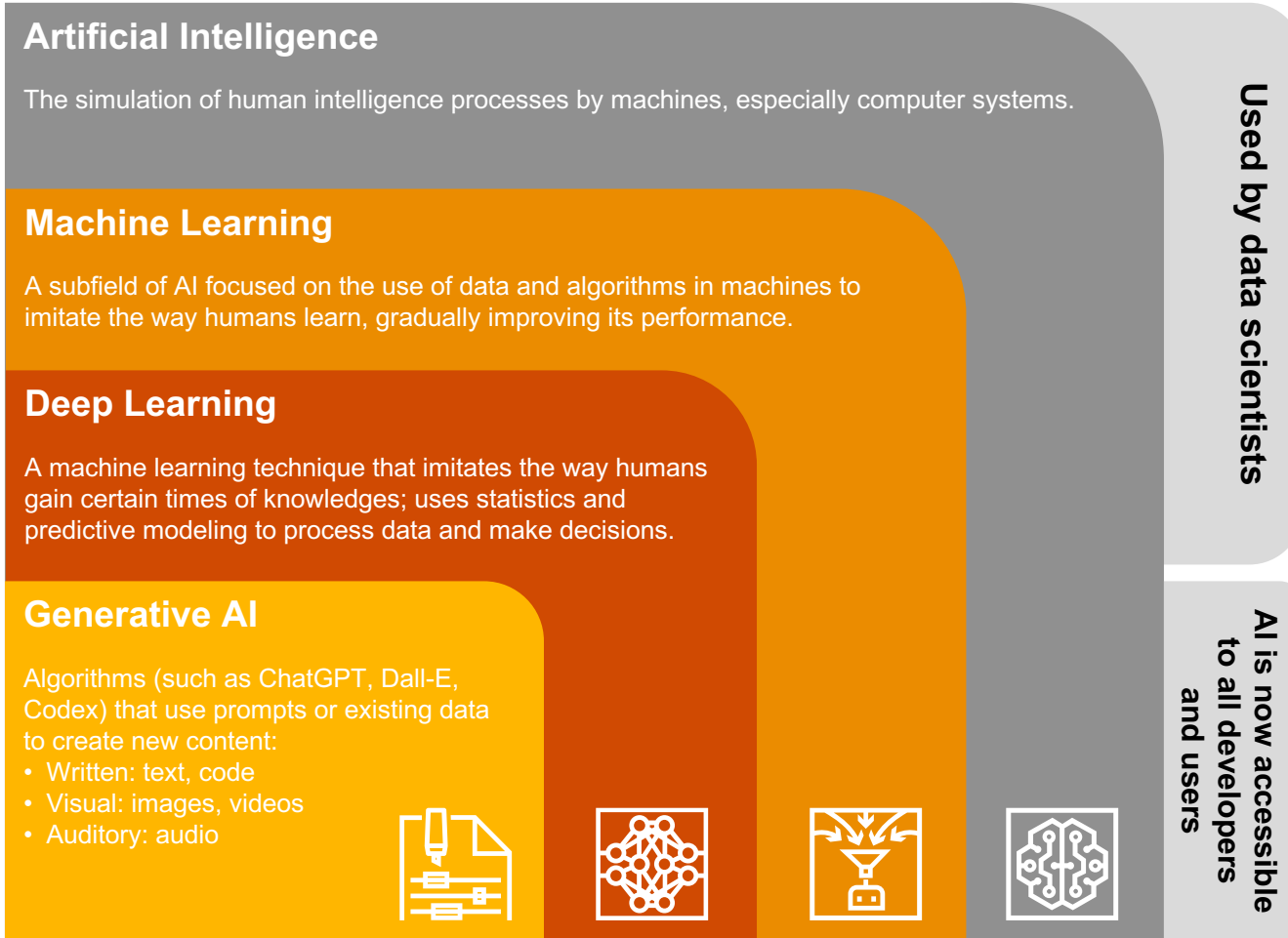


**Change in Migration Shares by Age Group  
2019-22**



Source: PwC Analysis; Remote Work & City Structure, Georgetown University, University of Chicago

# 2024 Trend: **An Artificial Boom**

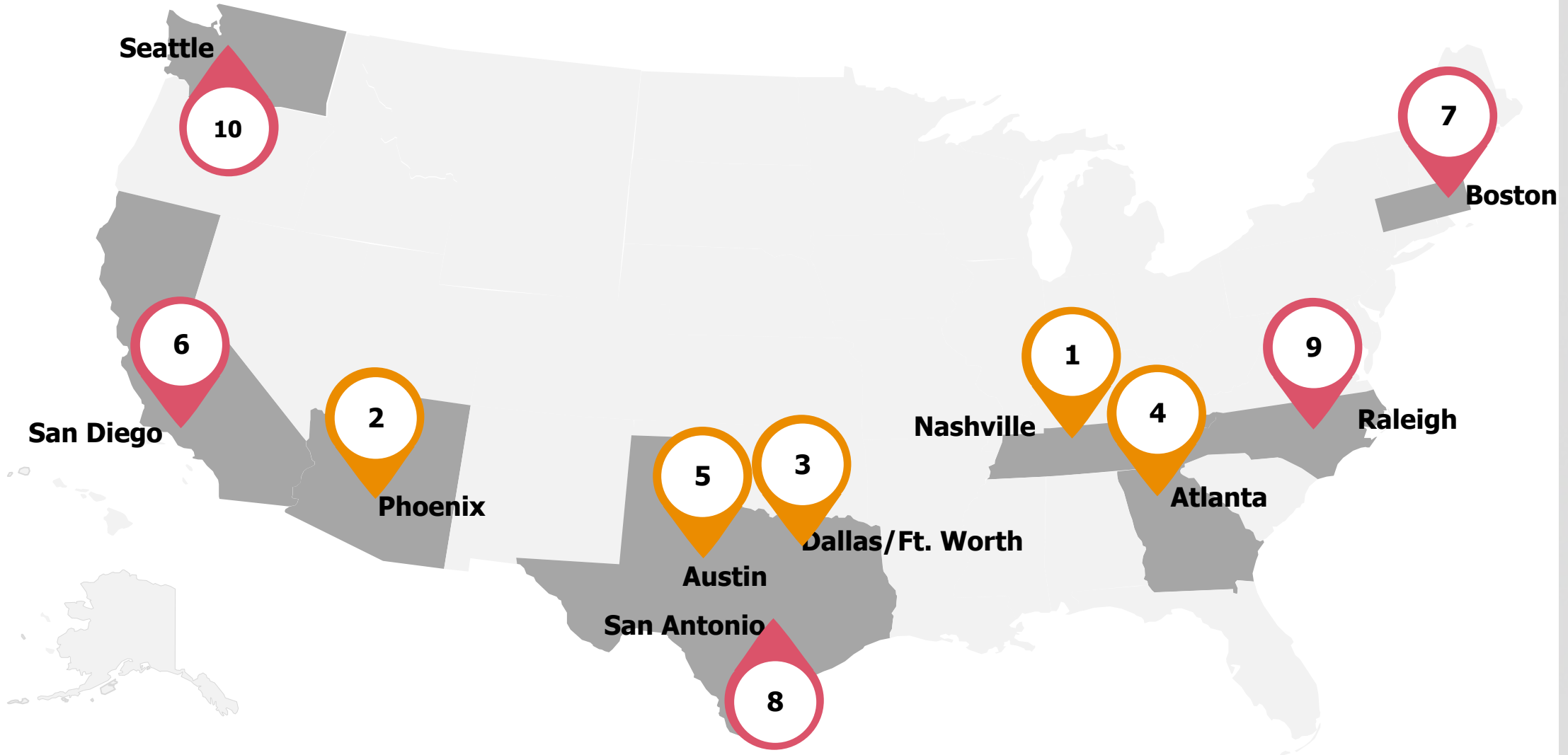


**“As an industry, we've got a long way to go. There's a huge lack of understanding that might slow the adoption . . . People are skeptical but excited at the potential.”**

Source: PwC Analysis; Emerging Trends in Real Estate



# 2024: U.S. Markets To Watch



Source: PwC Analysis; Emerging Trends in Real Estate

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# 2024: Investment Property Sectors To Watch

	 <b>1</b> <b>Multifamily Housing</b>	 <b>2</b> <b>Single-family Housing</b>	 <b>3</b> <b>Industrial Distribution</b>	 <b>4</b> <b>Hotels</b>	 <b>5</b> <b>Retail</b>	 <b>6</b> <b>Office</b>
Buy / Hold / Sell	BUY	BUY/HOLD	BUY/HOLD	HOLD	HOLD	HOLD
Current Pricing	FAIR	OVER	FAIR	FAIR	FAIR	OVER
Subsectors to Watch	Lower Income Moderate Senior Housing	N/A	Flex Manufacturing Warehouse	Limited Service Full Service	Shopping Lifestyle Outlet	Medical Suburban CBD

Source: PwC Analysis; Emerging Trends in Real Estate

# 2024: New York City Insights

## Trends and insights to highlight:

- “Haves vs have nots” in office sector (i.e., One Vanderbilt, Hudson Yards, etc)
  - Increased workplace flexibility keeping lid on demand for office space
  - Increase in vacancies roughly twice that of the nation
  - Uncertainty surrounding future rents, leasing activity, and office utilization
  - Valuations continue to decline as delinquency rates around 6% at the start of Q4 2023
- Municipal changes (affordable housing, ESG, etc)
- Return of hotels and travel

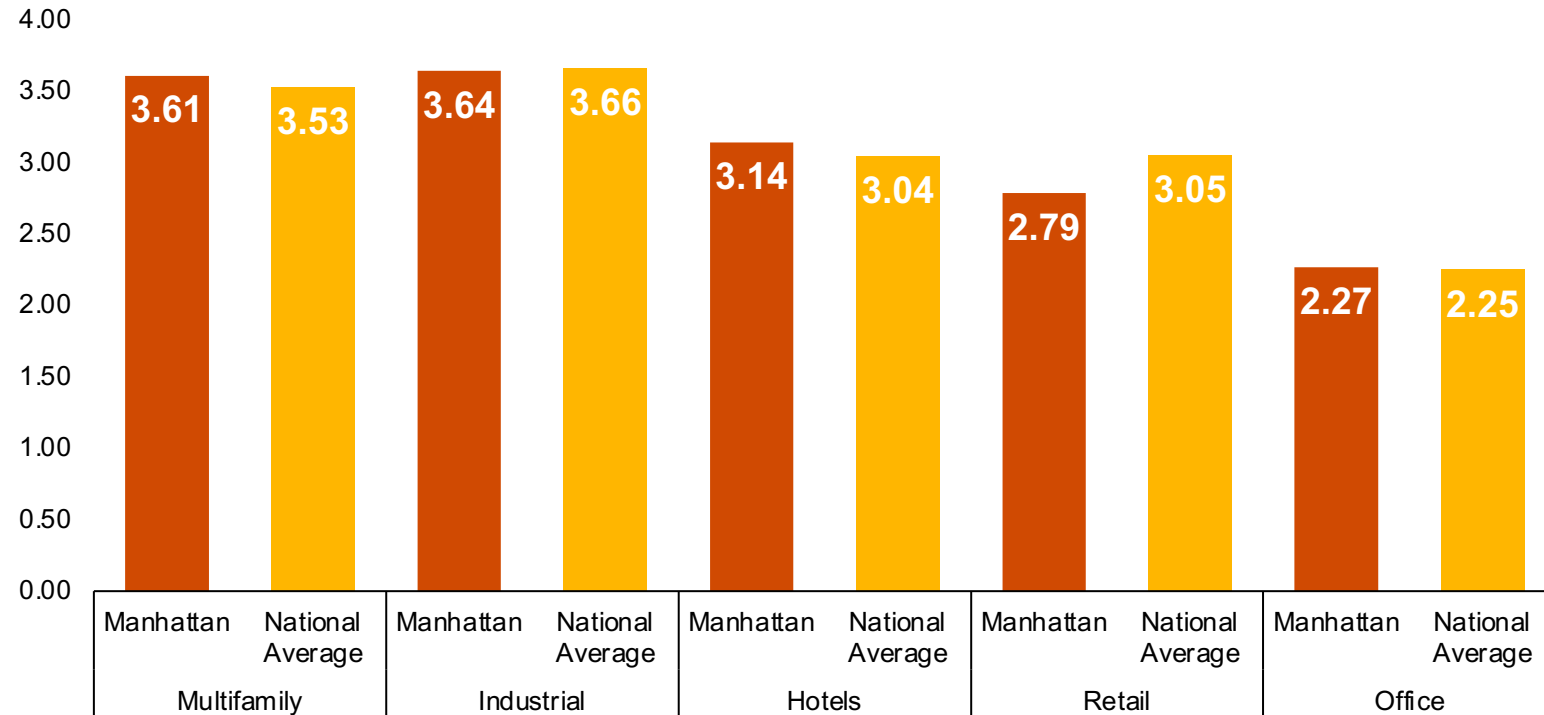


# 2024: Manhattan Market Insights

**31**  
Overall  
Prospects

**68**  
Homebuilding  
Prospects

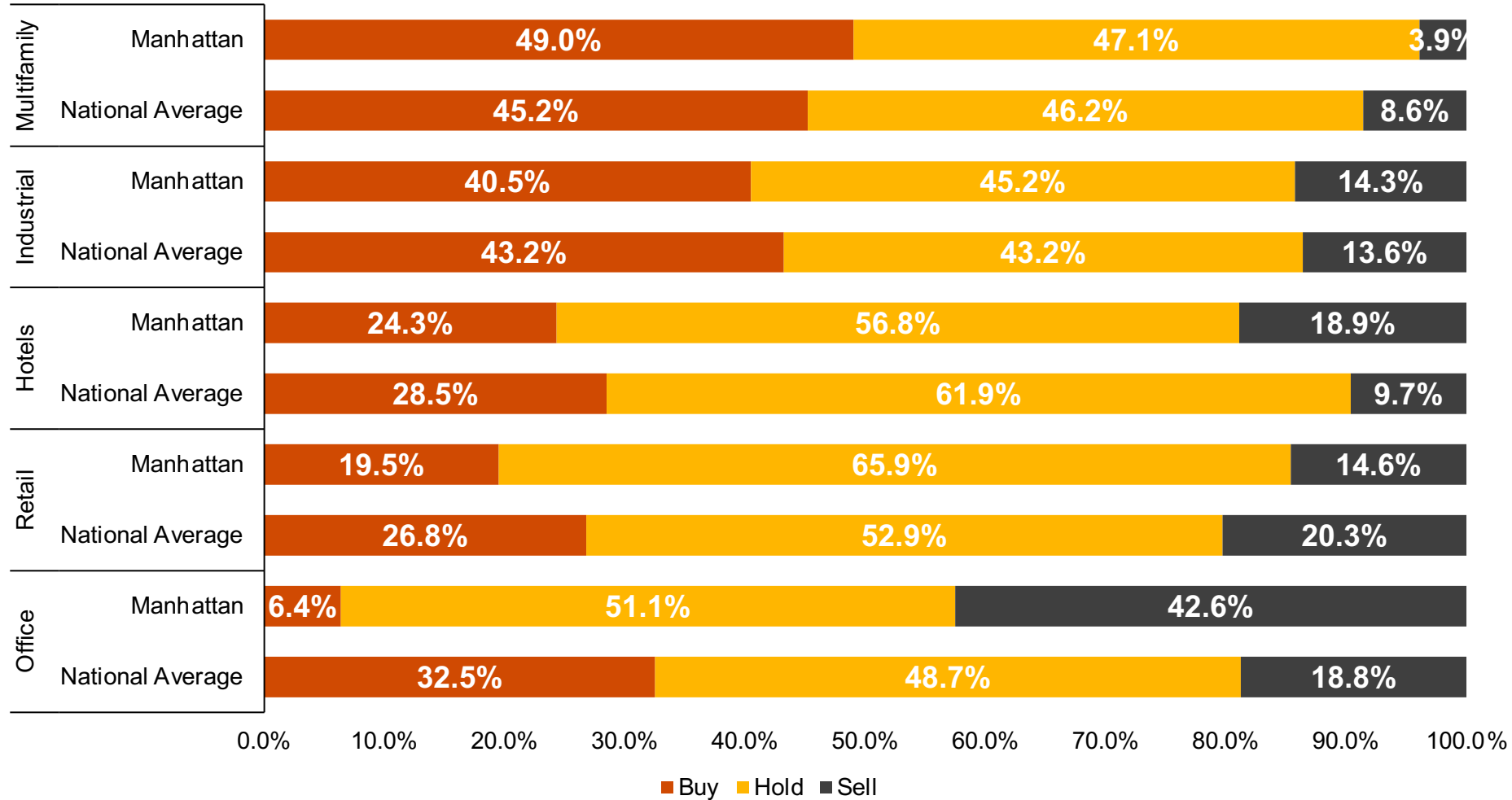
### Investment Prospects by Major Property Sector



Source: PwC Analysis; Emerging Trends in Real Estate | 1 – Abysmal 2 – Poor 3 – Fair 4 – Good 5 - Excellent

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# 2024: Manhattan Buy / Hold / Sell



Source: PwC Analysis; Emerging Trends in Real Estate

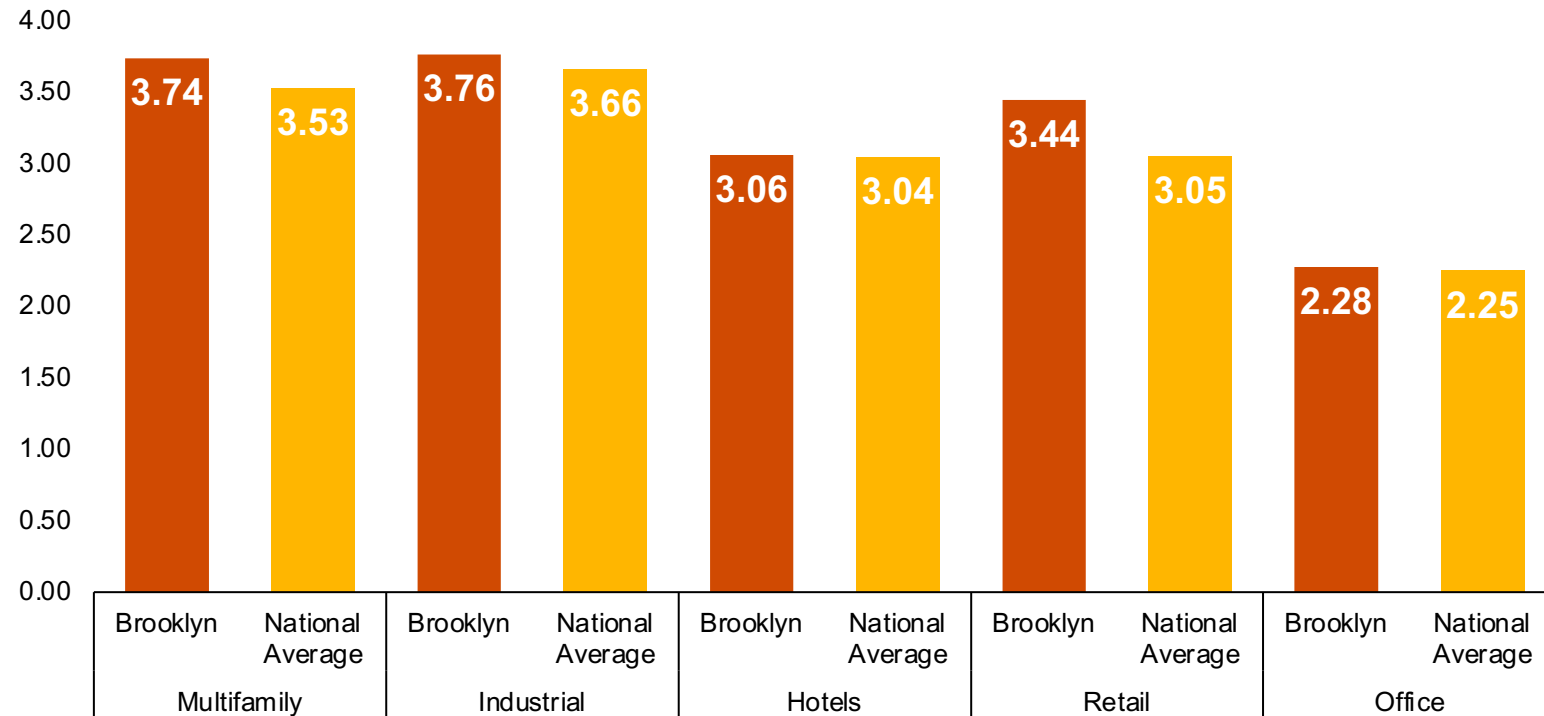
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# 2024: Brooklyn Market Insights

**28**  
Overall  
Prospects

**60**  
Homebuilding  
Prospects

Investment Prospects by Major Property Sector

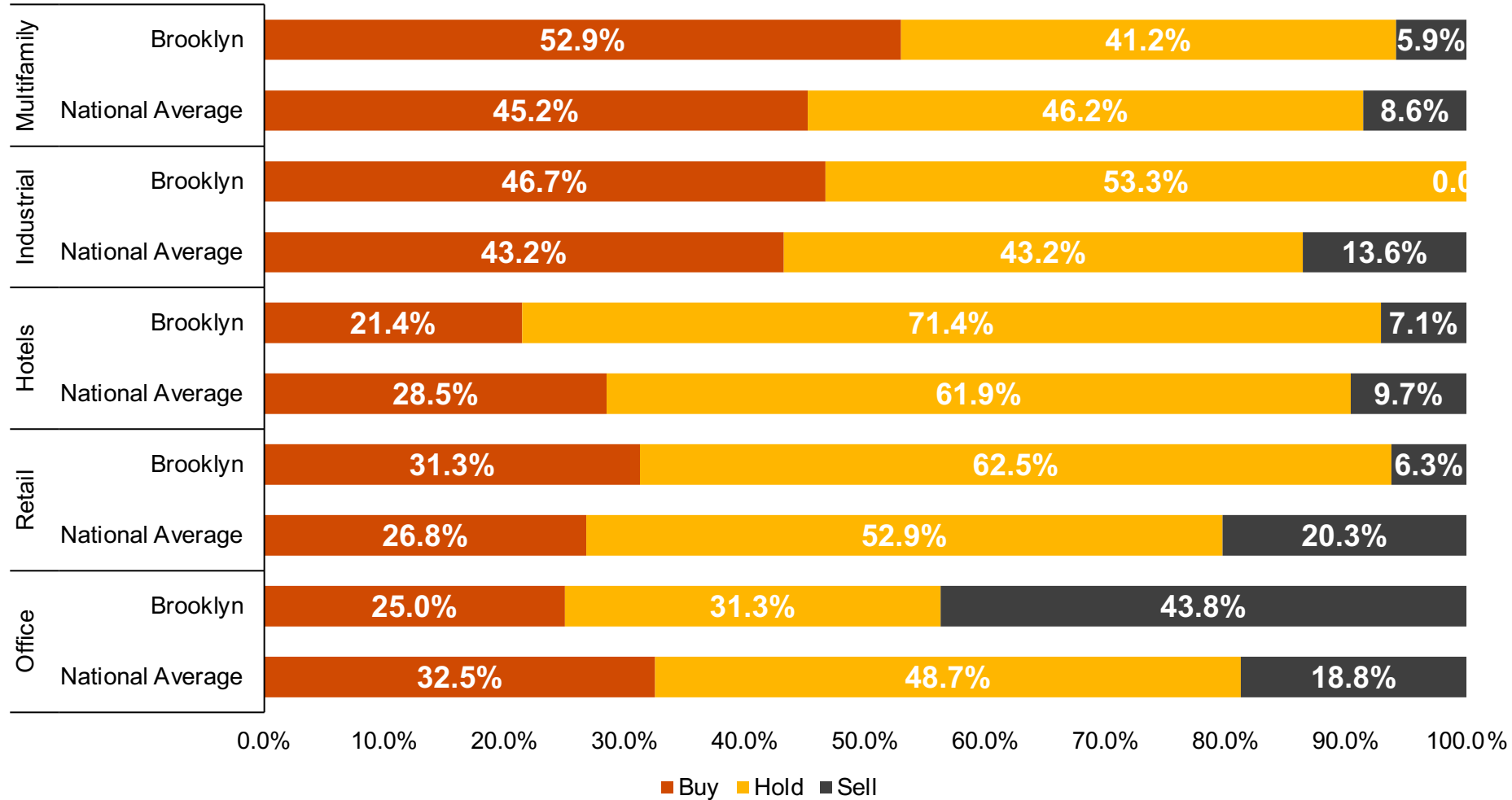


Source: PwC Analysis; Emerging Trends in Real Estate | 1 – Abysmal 2 – Poor 3 – Fair 4 – Good 5 – Excellent

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# 2024: Brooklyn Buy / Hold / Sell



Source: PwC Analysis; Emerging Trends in Real Estate

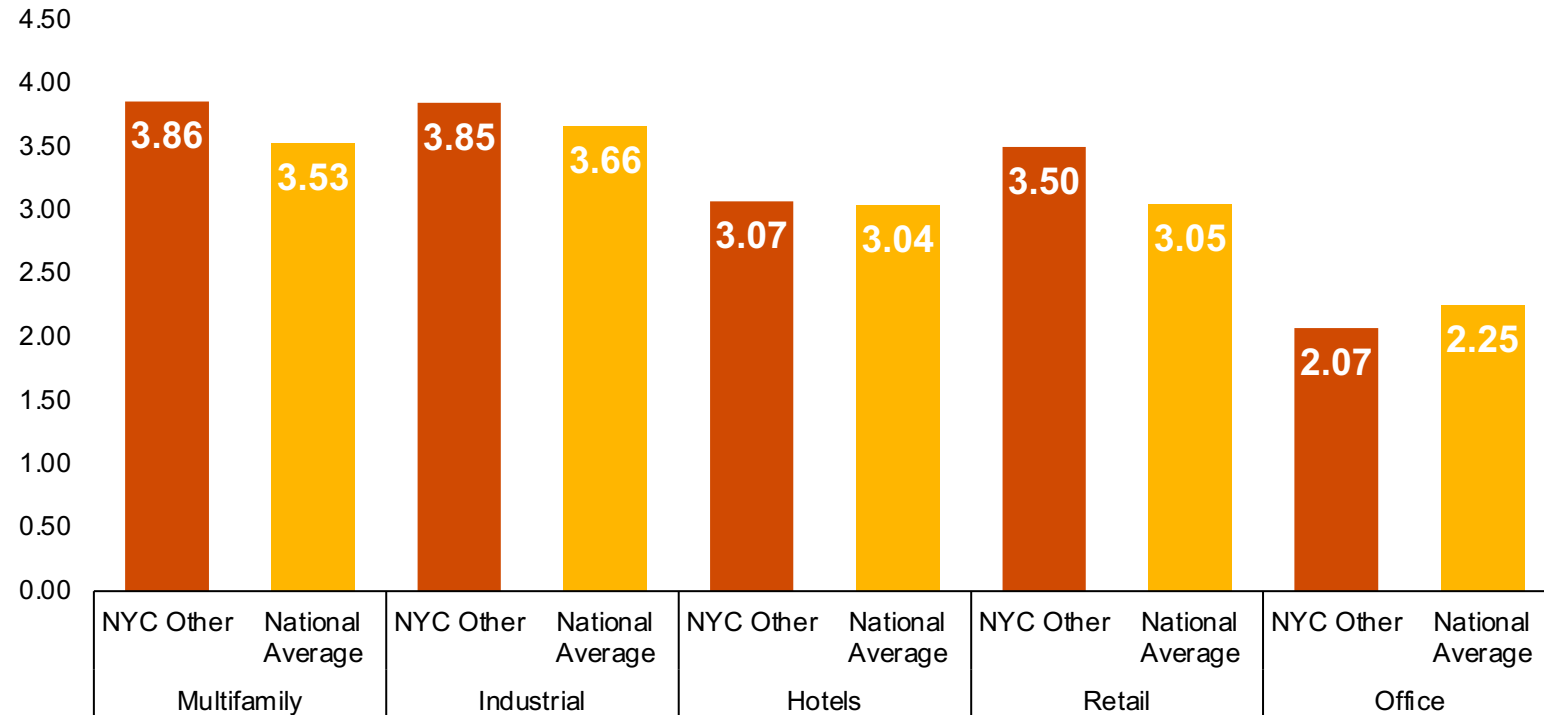
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# 2024: NYC Other Boroughs Market Insights

**37**  
Overall  
Prospects

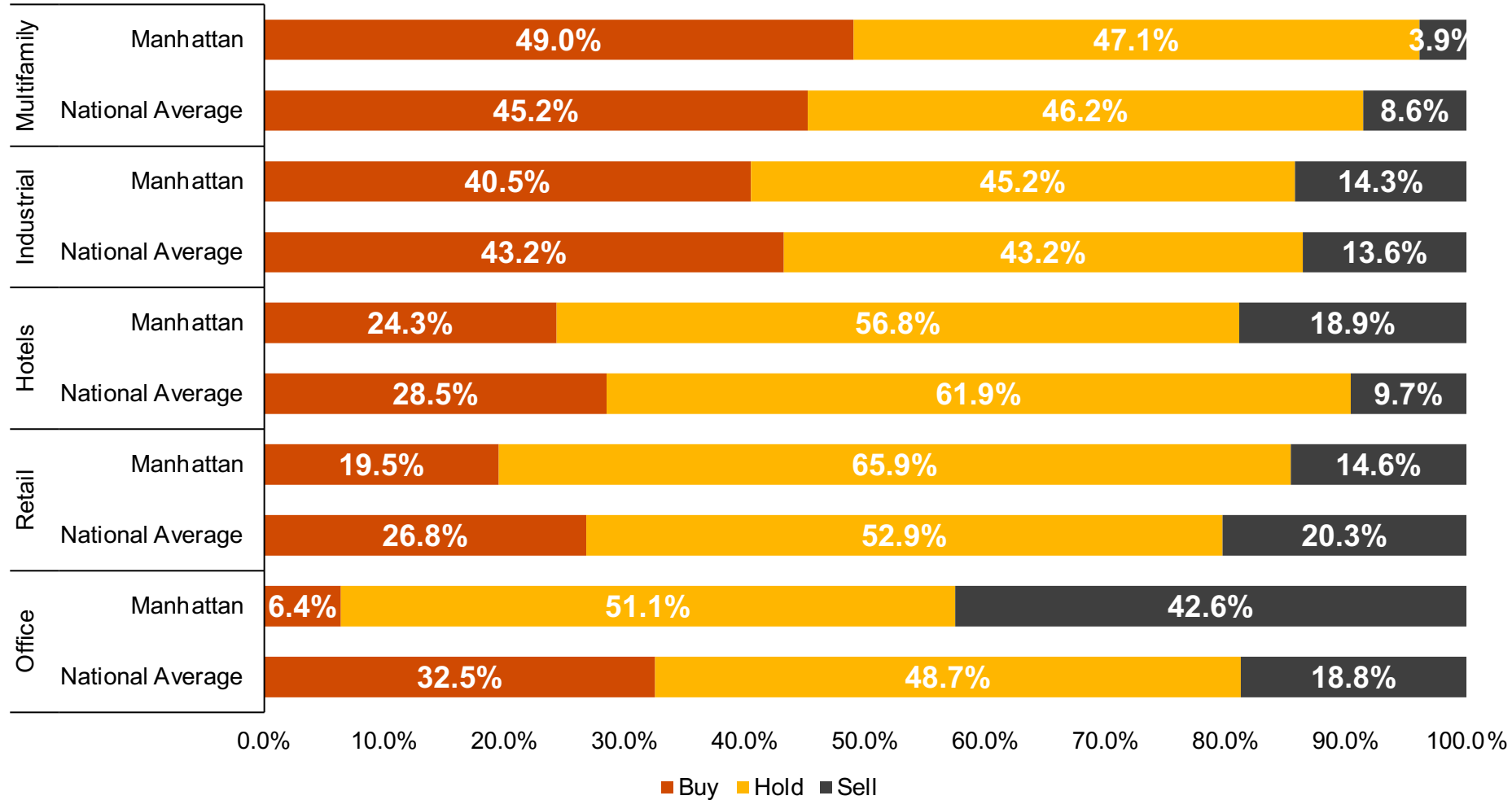
**54**  
Homebuilding  
Prospects

Investment Prospects by Major Property Sector



Source: PwC Analysis; Emerging Trends in Real Estate | 1 – Abysmal 2 – Poor 3 – Fair 4 – Good 5 – Excellent

# 2024: NYC Other Boroughs Buy / Hold / Sell



Source: PwC Analysis; Emerging Trends in Real Estate

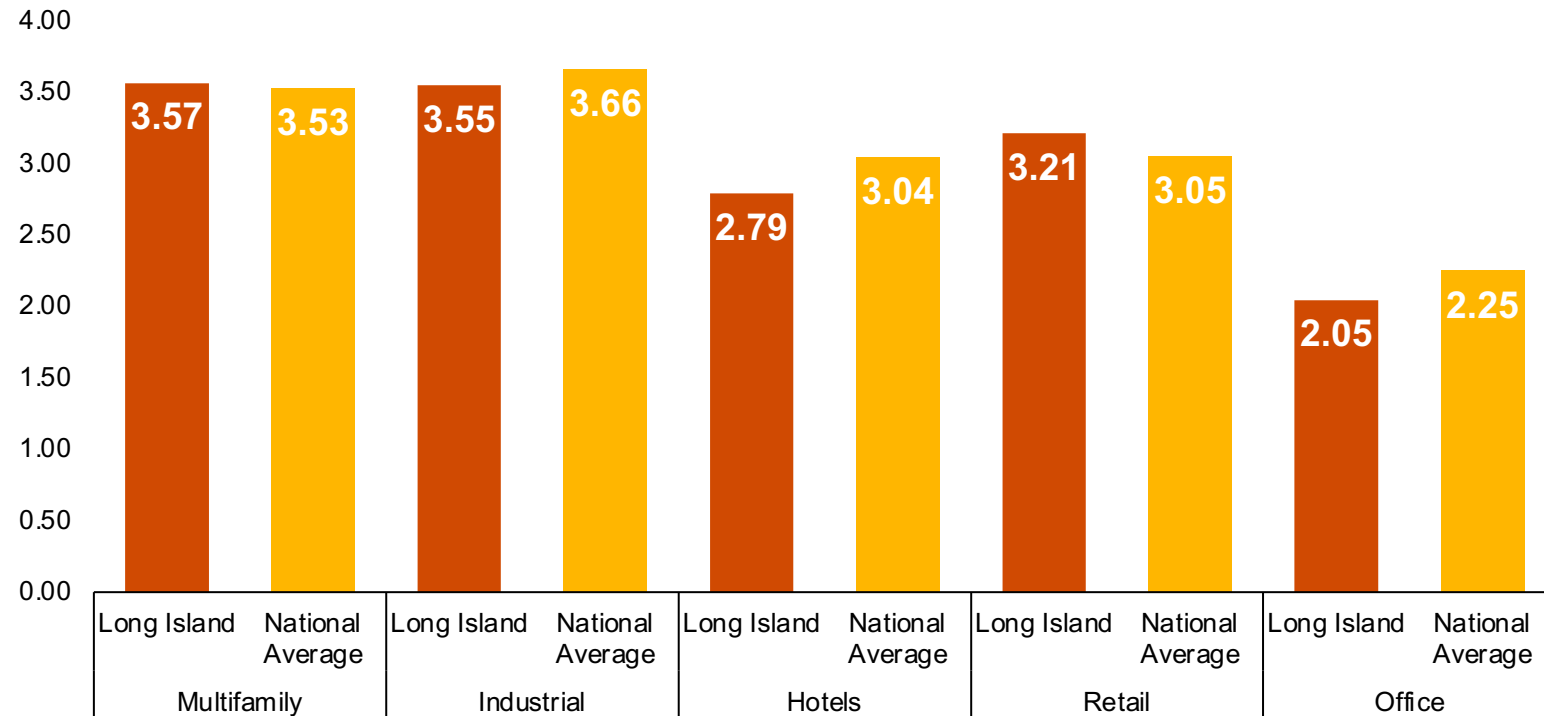
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# 2024: Long Island Market Insights

**38**  
Overall  
Prospects

**76**  
Homebuilding  
Prospects

Investment Prospects by Major Property Sector

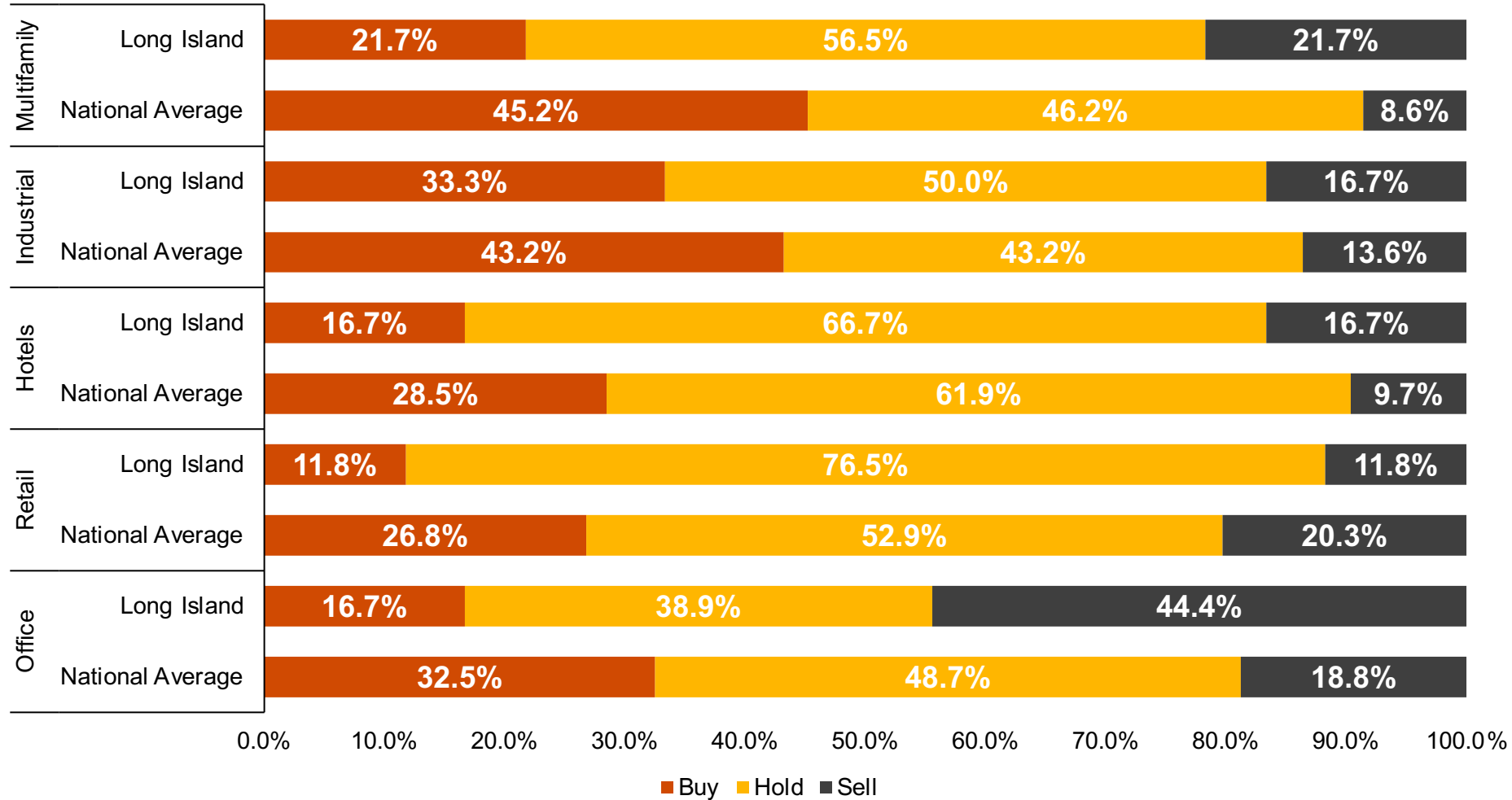


Source: PwC Analysis; Emerging Trends in Real Estate | 1 – Abysmal 2 – Poor 3 – Fair 4 – Good 5 - Excellent

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# 2024: Long Island Buy / Hold / Sell



Source: PwC Analysis; Emerging Trends in Real Estate

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# Thank you



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