

Emerging Trends in Real Estate 2020

ULI Sacramento Emerging Trends 2020
December 10, 2019



Emerging Trends in Real Estate 2020



- ☐ **Predictive Industry publication now in it's 41st year**
- ☐ **Sponsored jointly by ULI and PwC**
- ☐ **Input from over 2,200 industry leaders**

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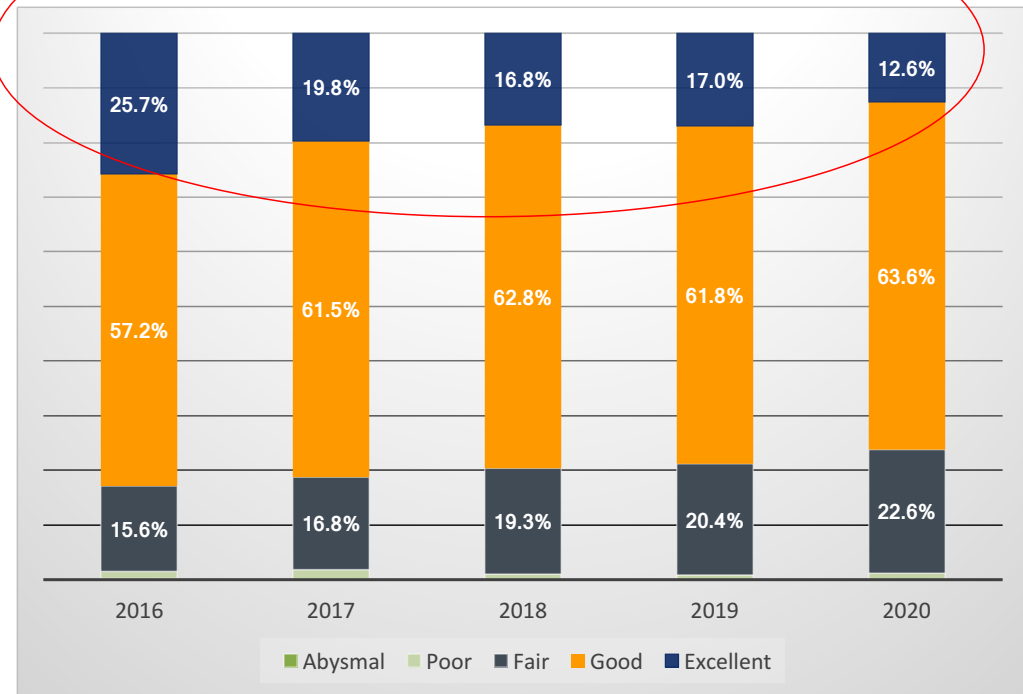
Market Sentiment; Still positive, but are we seeing some diversity in opinion?



2020 Expected Profitability

Is this what an extended expansion looks like?

- Abysmal to poor is up slightly, but still a very small percent of the total
- Some moderation is expected as those expecting a fair outcome in 2020 rises to 22.6%
- Outlook still shows some confidence as those expecting good rises each year
- Since 2016 the excellent outlook has been cut in half



What is behind the change of heart?

Reasons given for change in expectations from 2019

Lower

23%

1. Economy – 36%
2. Fundamentals – 29%
3. Government – 14%
4. Capital markets – 11%
5. Strategy shift – 5%

Higher

23%

1. Strategy shift – 28%
2. Fundamentals – 28%
3. Internal changes – 22%
4. Economy – 16%
5. Capital markets – 6%

“

Let's not talk ourselves into a recession, but we do need to keep an eye on the possibility



Key numbers to consider

3.2%

**Post WWII
average annual
GDP growth**

2.0%

**Consensus
forecast for
average annual
GDP growth
over the next 5
years**

2.6%

**Sacramento
average annual
GDP growth
over the next 5
years**

The danger in relying on averages...



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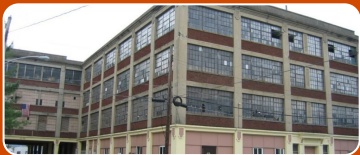
Personal consumption expenditures

Goods

Durable

Non durable

Services



+ I

Private domestic Investment

Fixed investment

Non residential

Residential

Change in private inventories



+ G

Government consumption expenditures and gross investment

Federal

National defense

Nondefense

State and local



+/- X

Net exports of goods and services

Exports

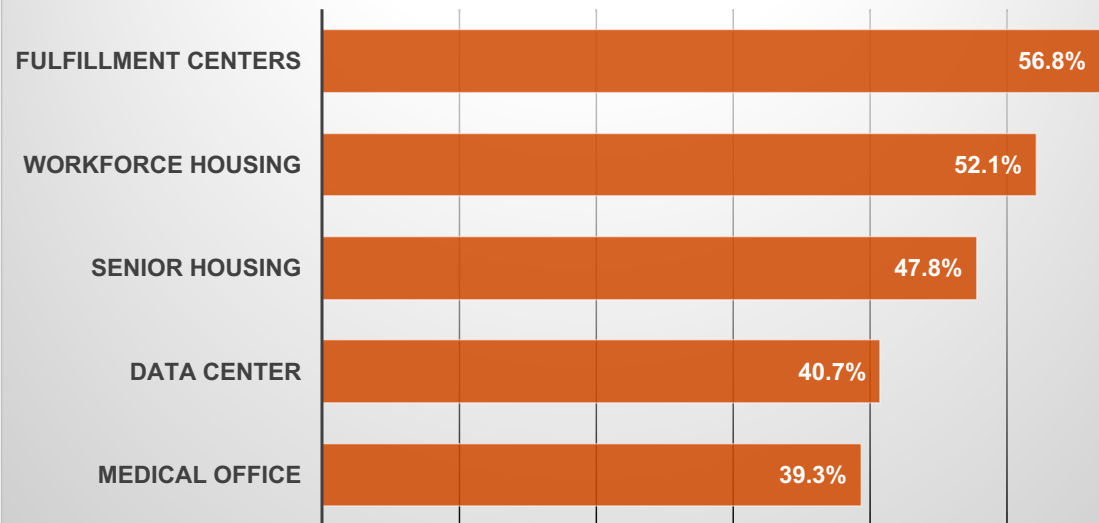
Imports

What property types do survey respondents think will be winners in 2020?

72.9%

Average percent of survey respondents that recommend either buying or holding in 2020

Top “Buy” recommendations



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The flow of capital into
real estate is both a
blessing and a curse

The Siren Call of TINA

ASSET ALLOCATION



STOCK

BONDS

REAL ESTATE

CASH

2007

Last time we talked about TINA



A few assumptions that may have gone wrong

- Unrealistic rent growth assumptions
- Further cap rate compression
- Continued demand

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2019

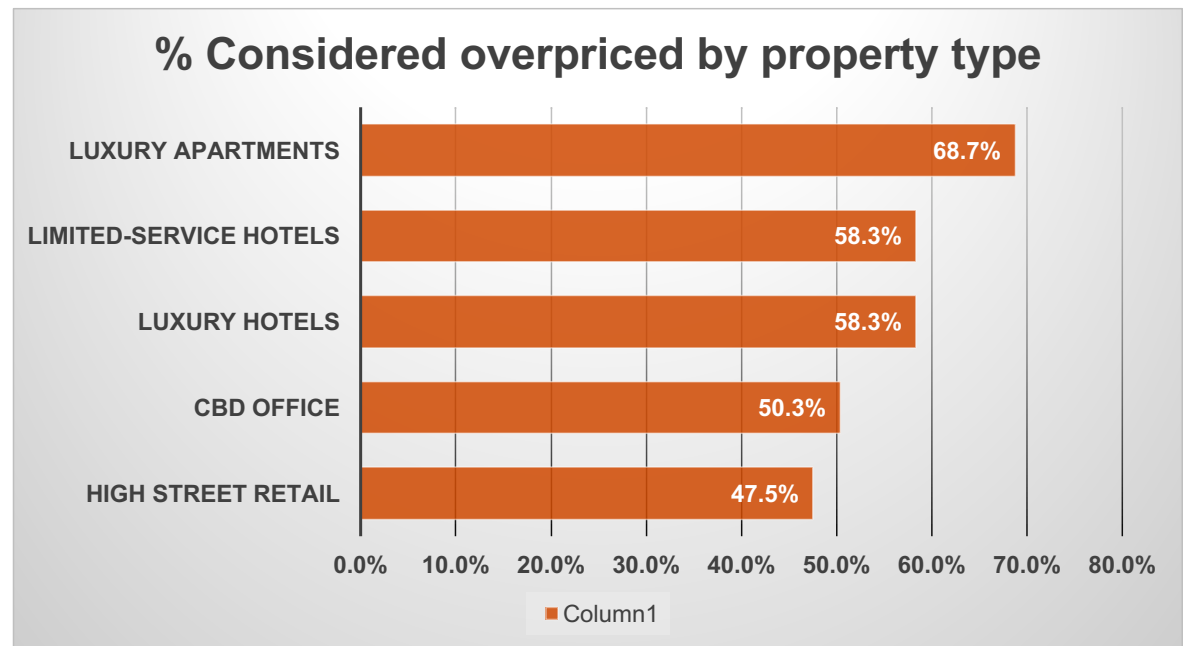
Lessons learned! Maybe we are a little more restrained this time around



Despite record high property values, market doesn't consider them too out of line

57.5%

Average percent of all property types that survey respondents feel are fairly priced



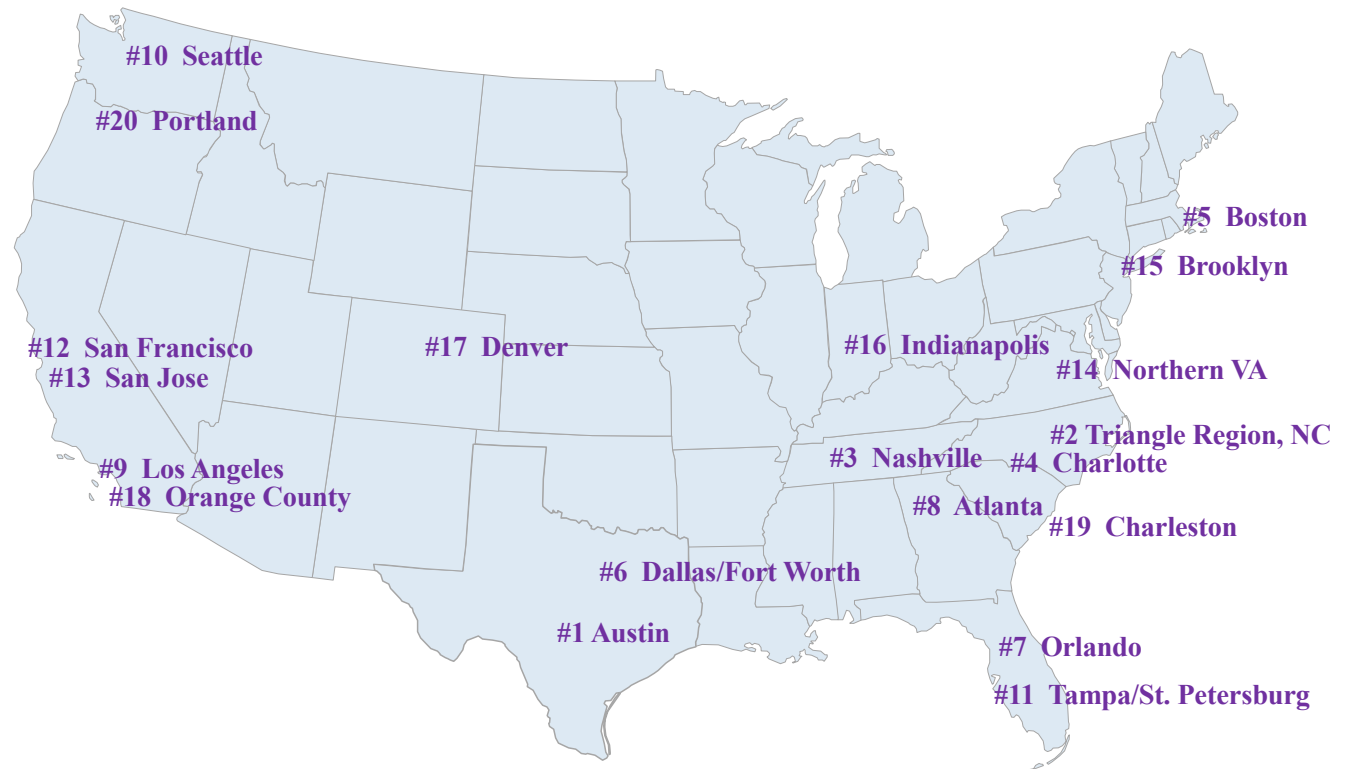
“ One size
doesn’t fit
all

Market Menu

Top 20 Markets for 2020 <i>A rising number of choices appealing to many appetites</i>	Market Price
Major Capital Magnets <i>Old favorites that we keeps us coming back</i>	Seasonal
Determined Competitors <i>Familiar choices that may hide a hidden kick</i>	Mixed Pricing
Aligning Expectations <i>Choices that are delivering what they promise</i>	Fair Pricing
Treasures Ripe for Discovery <i>An oyster with a pearl or tomorrow’s favorite today</i>	Mixed Pricing
Potpourri: Thrifty Choices, Boutiques, and Special Situations <i>You may be pleasantly surprised what you’ll find</i>	Ala Carte

Top 20 Markets

- ❑ Heavily weighted toward growth and the Southeast
- ❑ More diverse and reflect recent volatility

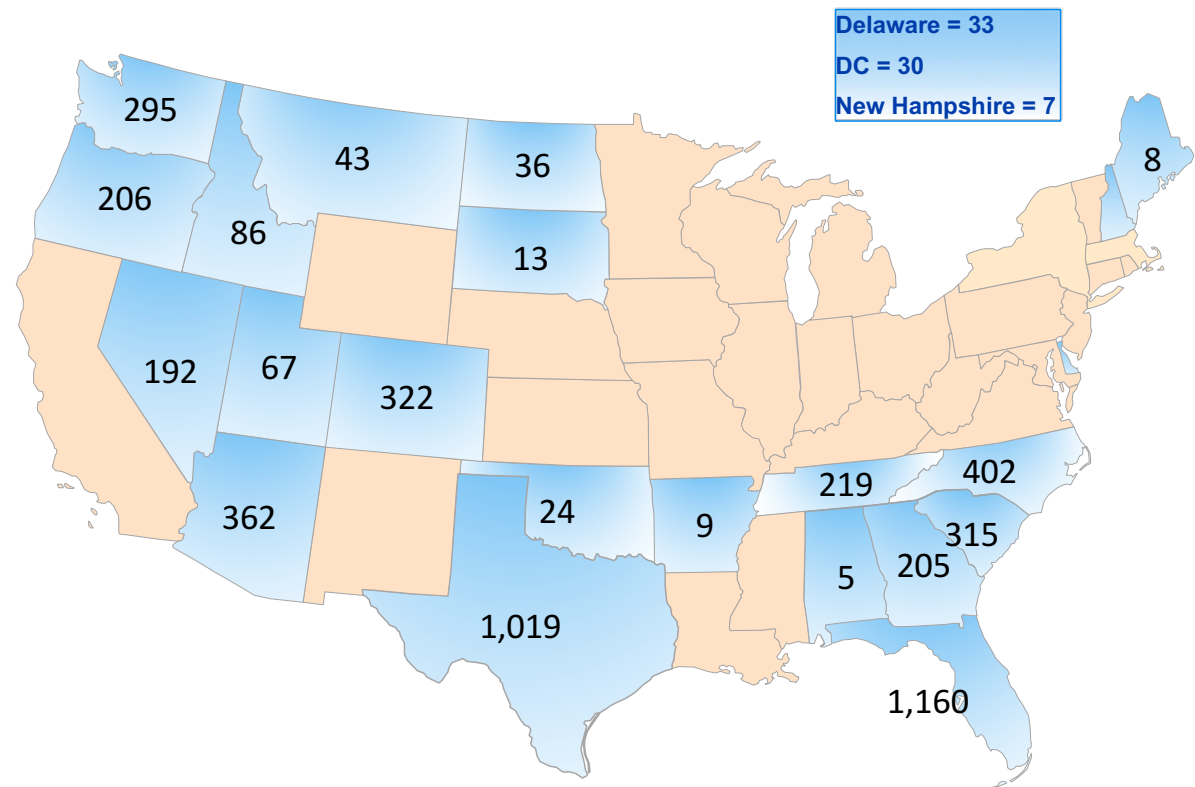


2010 – 2018 cumulative domestic net migration (ooos)

23

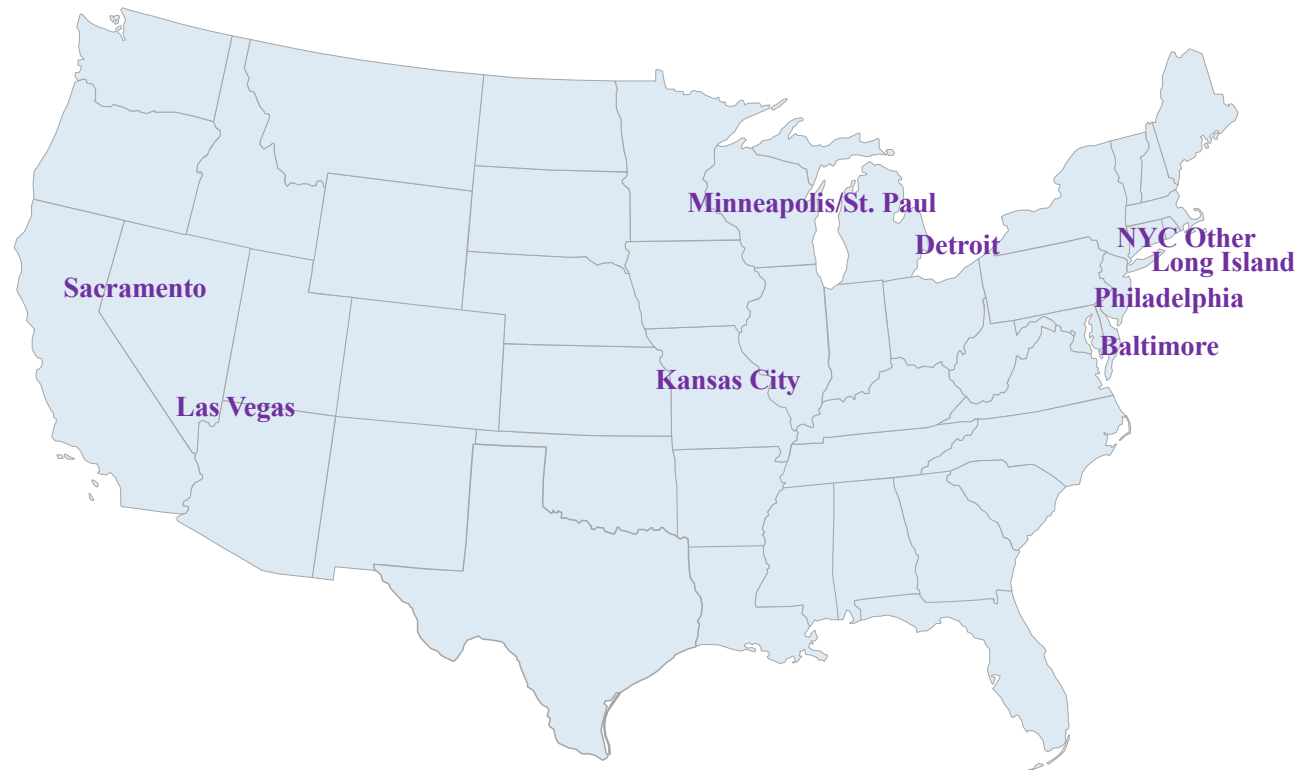
Number of states experiencing positive domestic net migration

- Geographically concentrated across the South and West
- Florida and Texas account for 43% of all positive net in migration
- The top 10 states account for 89% of all net in migration



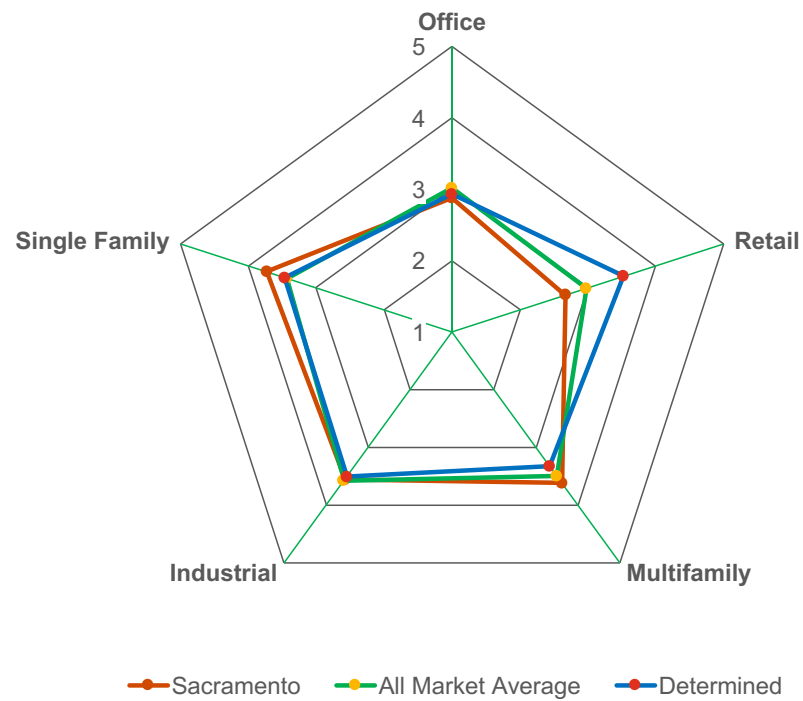
Determined Competitors

- ❑ Markets that attract a surprising % of US real estate investment
- ❑ Markets that domestic and global investors have increased their interest



Deviation of local market outlook from survey averages by property type

- *Scores show how markets are converging rather than diverging throughout this business cycle*
- *Sacramento exceeds all market and Determined average for single family and multifamily*



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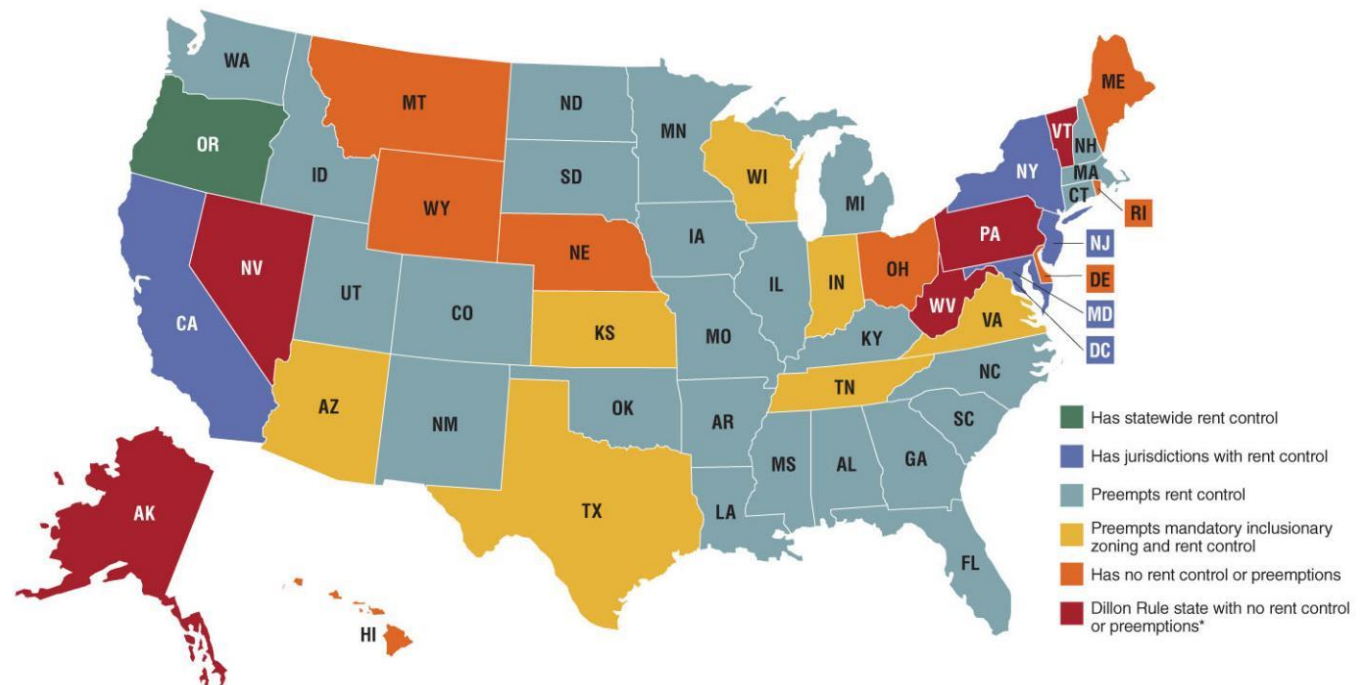
High growth or low growth, Southeast or Midwest, everyone is talking about some form of housing affordability

Housing: The Great Unraveling



Political climate is leading to a rise in rent control rules

Concern that areas that enact rent control will inadvertently slow new investment in existing housing stock and slow the development of new housing



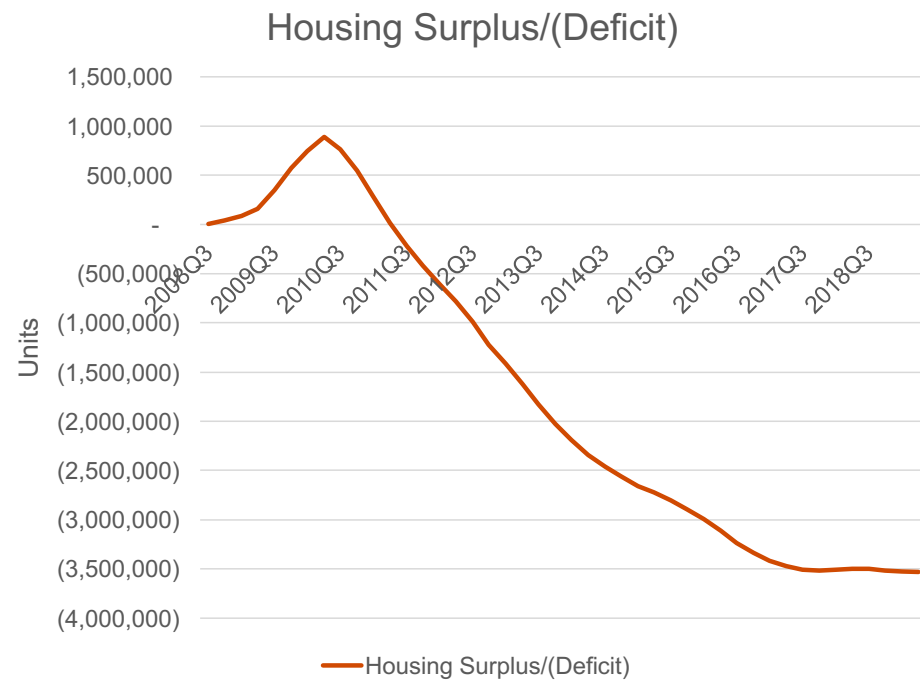
Source: National Multifamily Housing Council (NMHC).

*The Dillon rule specifies that municipal governments can pass ordinances only in areas where the state government has granted clear authority to do so.

Housing shortfall

Household formations easily outpace new supply

- ❑ A simple analysis that doesn't even address geographic specifics, but clearly points to the depth of the problem
- ❑ Demographic and economic factors are driving household formations
- ❑ Demographic and economic factors are making it difficult for the housing industry to add units at the required rate



“ Searching for a feeling of place

While technology and the gig economy have given us the tools to work from anywhere, human nature seems to crave a sense of community. This is having an impact on the real estate industry as well

- ❑ Employers are finding that creating a sense of community is a benefit in the attraction and retention of employees
- ❑ Multifamily properties are substituting unit amenities with community amenities to appeal to tenants
- ❑ Landlords that can create a sense of community in their buildings find it easier to attract and retain tenants
- ❑ Neighborhoods are looking to attract the right buildings that will be an anchor to developing a community feel in the surrounding area



Remember when it was just work space?



1960's interpretation of the open office concept



1980's interpretation of a private office concept



Today's interpretation of collaboration space

Community doesn't end at the workplace



Tenants



Building



Neighborhood

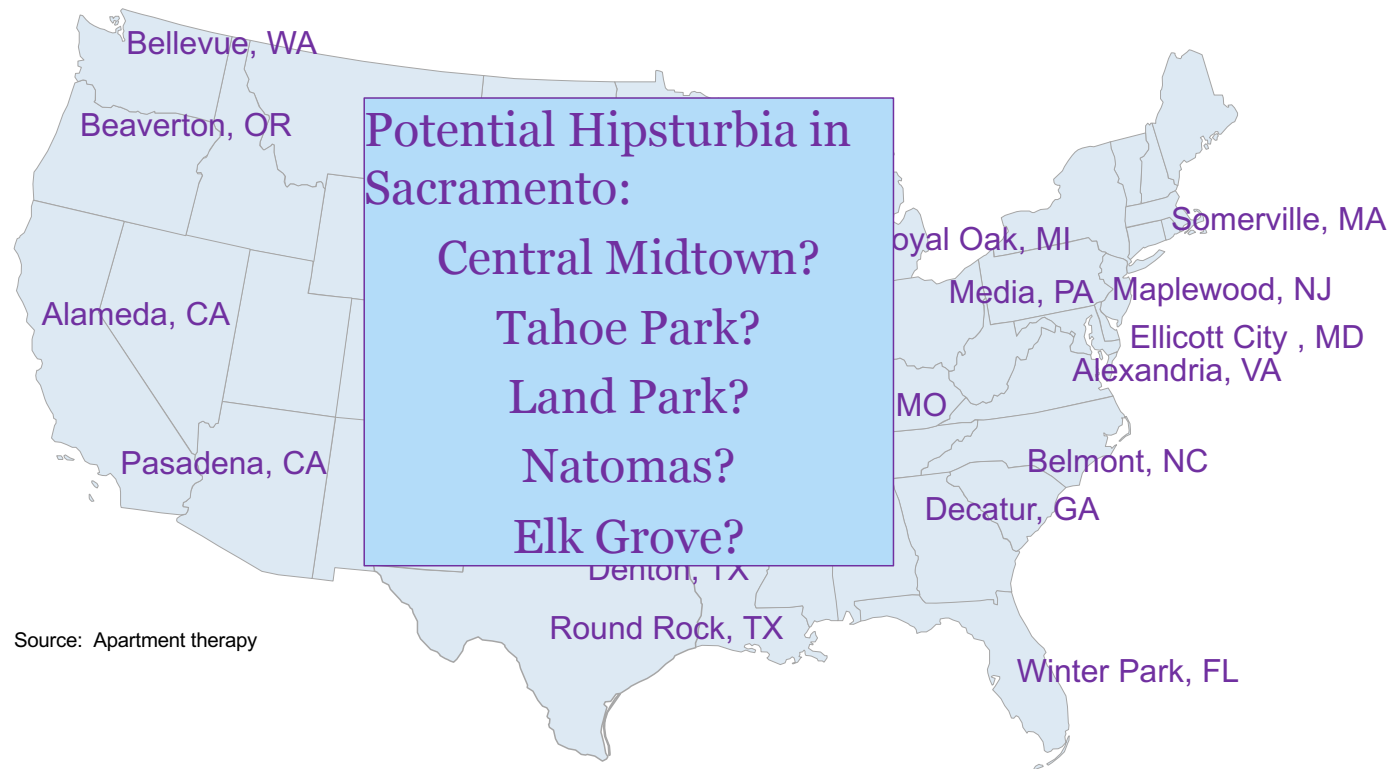
“ Suburbs are becoming cool again

The expectation that Millennials would begin to move to the suburbs has become a reality. This generation however, is putting their own spin on the suburbs they are choosing.

- ❑ Suburbs that are in favor offer many of the same amenities that drew the generation to the urban core
- ❑ Many of these suburbs are also gentrifying to meet the needs of the new residents
- ❑ “You can’t be a suburb of nowhere” – Suburbs in markets with strong urban cores are seeing the most growth



Cool Suburbs



Source: Apartment therapy

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Big surprise! The boomers may not be doing what we thought they would, what will be the impacts on following generations?



Boomers and Beyond

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Sustainable and green building has been so successful, that ESG just seems like the natural progression of these ideals



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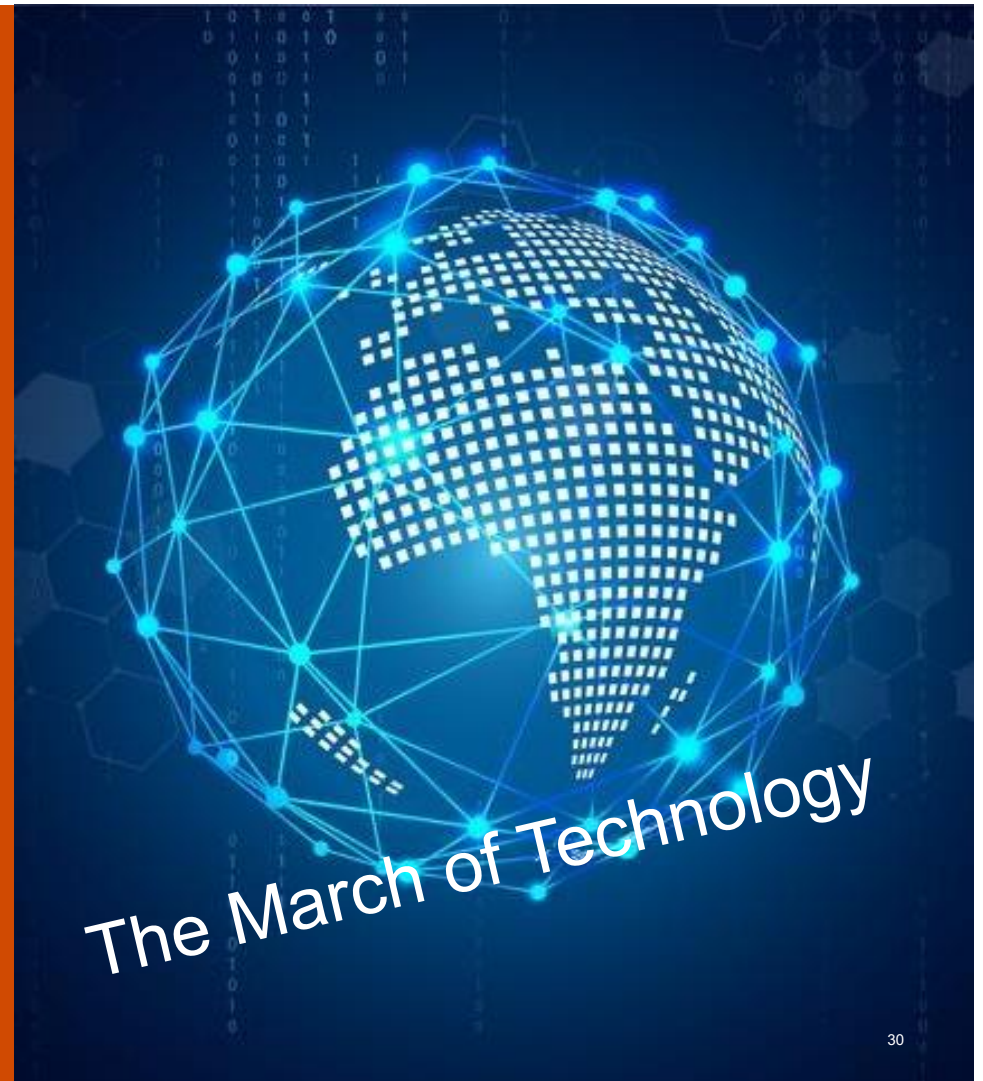
Cities that have invested
in their infrastructure
are clearly seeing an
economic advantage



**Washington stumbles; States
and Cities pick up the ball**

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The ultimate goal of implementing technology is to make the whole equal more than the sum of the parts








We continue to generate more data every year!



2019 *This Is What Happens In An Internet Minute*



How technology is being used today

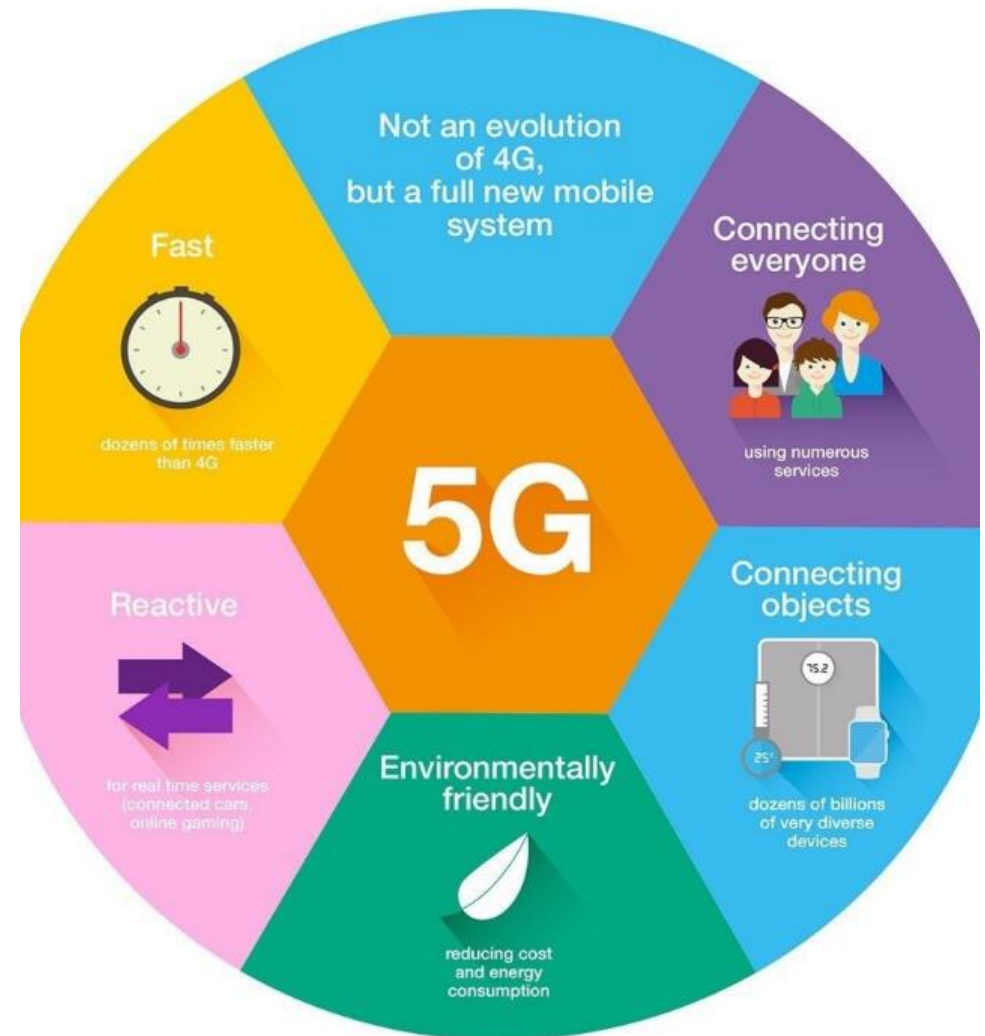
Visualization		• Seeing how things are going to happen
Facilitation		• Making life easier for tenants
Collaboration		• Bringing people and processes together
Efficiency		• Improve operational processes
Decisions		• Using data to enhance decision making

Will 5G allow current and existing technologies to have a real impact?

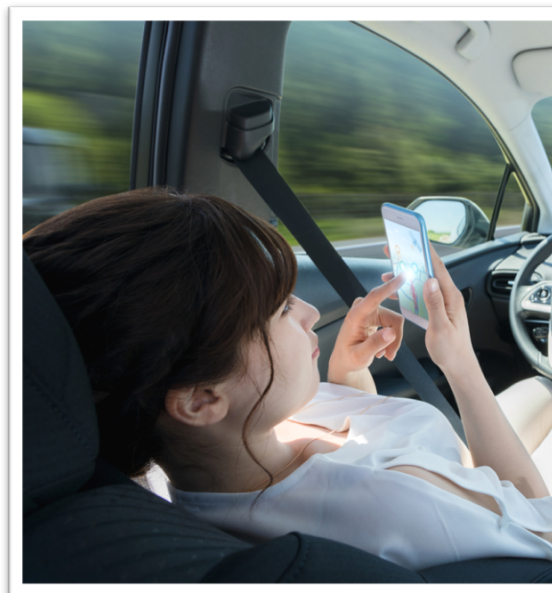
5G will enhance speed and reliability

The increased speed and latency provided by 5G will make a number of technologies viable

- Increased broadband access
- Autonomous vehicles/smart infrastructure
- Control of remote devices
- Machine learning and enhanced IOT (internet of things)



What you don't want to see when...



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A confident industry

Slower but more
sustainable growth

Uncertainty will pose
challenges but also
opportunity





Questions Feel free to contact me at:
andrew.warren@pwc.com

Thank You!

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