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COUNSELORS OF REAL ESTATE TOP TEN ISSUES

Annually the Counselors of Real Estate (CRE) reviews the real estate landscape at mid-year and solicits input from their members and leadership to identify the top ten issues affecting real estate for the upcoming year. For 2017-2018 this survey and analysis concludes that the number one issue affecting real estate for the upcoming year is **Global Uncertainty and Political Polarization**. They conclude that these combined issues are impacting decision making at every level of government and throughout the business community. On an international level, recent elections in the U.S., France, Australia and the U.K., as well as other countries, point to resurging of nationalism, testing existing diplomatic and trade relationships around the globe. The potential for military conflicts seems more likely in Asia and existing conflicts in the Middle East grow increasing volatile.

The local level is not immune. There is continuing and intensifying polarization between and within political parties which continues recent trends. This polarization makes it extremely difficult for elected representatives to find the common ground which is necessary to resolve current and future problems.

Clearly, negative implications affect real estate. Such issues as uncertainty about changes in trade, travel and immigration which threaten cross-border investing affects in particular hospitality properties, retail, and manufacturing supply chains. It is concluded that one or both of these trends affects virtually every issue on this year's list and a host of others that were considered, but not included in the final top ten.

The following issues were identified as bearing close watch as to how they may impact real estate:

- 1. The Technology Boom** – Technology startups are revolutionizing real estate operations in many sectors. One of the biggest changes this year is not necessarily a “killer app”, but an unprecedented wave of commercial real estate technology innovations that are expected to change the way real estate is bought, sold, and managed.
- 2. Generational Disruption** – The clear divergence between Boomers and Millennials in terms of their view of where they live, work and play, has increasingly affecting property markets. The Baby Boom generation of approximately 74 million is now smaller than the Millennial Generation of some 75.4 million. A significant number of today's real estate decisions, as well as those connected to the workplace and consumer spending, are made by people under the age of 40.

- 3. Retail Disruption** – “Experiential” retail drives customer traffic to a more diverse and highly participatory environment targeted to a variety of age groups and interests. The trend toward transforming retail into an experience continues to develop and is offsetting shrinkage in the physical consumer goods platforms – i.e. bricks and mortar stores. It is no secret that the U.S. has been over retailled for decades. In a recent study the U.S. boasts 40% more shopping space per capita than Canada, five times more than the U.K. and ten times more than Germany. Despite significant repositioning and some mall closings, the conclusion is that we are not headed for a retail apocalypse. Many retail sectors are thriving and experiencing significant growth.
- 4. Infrastructure Investment** – While there appears to be much political support for substantial investment in infrastructure, it is not clear when and if the U.S. Government will be in a position to move these major initiatives forward. Initial concept plans released by the Trump administration indicate a relatively limited Federal Government investment, placing heavy reliance on local and state government and public-private enterprises. It bears careful watching as to how this trend develops and whether there will be the political will to fund the nearly \$400 billion in infrastructure development, which many feel is required.
- 5. Housing: The Big Mismatch** – The current lack of inventory has generated a spike in home prices and, as a result, declining affordability for many home buyers, particularly those in lower income sectors. This clearly is a disparity between housing needs and housing supply. This will be a major challenge, not only in the next twelve months, but into the near term.
- 6. Lost Decades of the Middle Class** – Middle class incomes have yet to recover their pre-recession highs of 2007. Many trends including automation and outsourcing continue to exert pressure on middle class jobs as the economy transitions from manufacturing to services. One clear impact is that retail properties serving primarily middle class customers are bearing the brunt of store closures. Malls with tenants with high income buyers are faring relatively better.
- 7. Real Estates Role in Emerging Healthcare** – With U.S. spending of nearly \$3 trillion per year on health care, the opportunities in and role of real estate in this sector is increasingly important. Emphasis on cost savings have led to such things as virtual care, which bundles digital and wireless and mobile and home monitoring of patients. This is an expanding industry as security and access problems are resolved. Applied data analytics also help in this “everywhere care” model. Clearly this will have an impact on the development of new health care related real estate and the industry will need to adapt.
- 8. Immigration** - The trend toward more restrictive immigration laws emphasizing concerns about security and terrorism, are appealing to much of the voter base but will have real impact on our economy. New immigrants tend to rent, boosting demand for multifamily housing, especially in gateway cities. Surveys suggest that immigrant populations aspire to own homes and to move relatively freely

from cities to suburbs which will be an important trend as Baby Boomers exit the suburbs and head toward the cities. This population segment may very well be the exit strategy for these homeowners.

9. **Climate Change** – Although still a debatable topic, there are clear trends that show movement and change in our climate. The major controversy seems to be whether this is manmade or whether it's a natural evolution. The implications of potential sea level rise and related flooding on real estate values will have a dramatic effect on these properties. Retrofitting to deal with these changes is extremely expensive. Building codes have already been modified in many areas to provide for anticipated change.

These issues are just highlights of an in depth analysis which consisted of a survey of CRE members and industry leaders. These are areas where all real estate professionals are affected in different ways. This top ten issues list is a great guideline and check list as developments are proposed and strategies are developed for operating companies.

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