

CRE Update 2017

Commercial Real Estate Market Update and Review

Market Update – General Outlook

- ▶ Lots of global uncertainty, U. S. remains a safe haven economically
- ▶ U. S. Interest rates - Upward pressure but overall remain favorable for investing
- ▶ U. S. Political Climate - Favorable towards business
- ▶ U. S. Economy - 7.5 years into recovery and remains strong
- ▶ U. S. Job Market - Strong, with unemployment at 4.4% as of August 2017

Market Trends - Millennials Impact

- ▶ Why are Millennials so important?
- ▶ Who are the Millennials?
- ▶ What impact do they have on the current and future market?

Impact of Millennials on Market

Why are Millennials so important?

Estimated Current Population

- ▶ Millennials: +/- 92 million
- ▶ Gen Xers: +/- 61 million
- ▶ Baby Boomers: +/- 77 million

- ▶ Current total estimated population in the United States is +/- 325 million

Percentage of the Population

- ▶ Millennials: 28.3%
- ▶ Gen Xers: 18.8%
- ▶ Baby Boomers: 23.7%

- ▶ Millennials currently represent the largest population group in the United States

* Millennials are identified as those born from 1980-2000

Impact of Millennials on Market

Who are the Millennials?

- ▶ Millennials are the largest generation in Western history
- ▶ Most educated generation in Western history
- ▶ Has the highest “educational debt” of any generation in Western history
- ▶ Higher affinity for technology and communication
- ▶ Higher need for instant gratification
- ▶ Desire to belong to community, but prefer the “live, work, play” setting
- ▶ Has different values regarding ownership, assets, and decision making

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Impact of Millennials on Market

What impact do they have on the current and future market?

- ▶ Data shows that Millennials are staying at home, and unmarried far longer than any other previous generations.
 - ▶ In 1968 approximately 56% of those age 18-31 years old were married and/or lived in their own home or apartment.
 - ▶ In 2012 only +/- 23% of those age 18-31 years old were married and/or lived in their own home or apartment.
 - ▶ Is this simply a “10 -15 year” housing delay for 71 million millennials?
- ▶ 81.0% of Millennials will make their “buy” decisions from “word of mouth” recommendations, which include all forms of social media, apps, and technology

* Millennials are identified as those born from 1980-2000

Impact of Millennials on Market

Retail Disruption and Rise of E-commerce

- ▶ Continuing emergence of E-commerce
- ▶ 2016 U. S. retail sales of \$4.952 trillion
 - ▶ E-commerce sales were \$352 billion, or 7.1% of the total retail sales
- ▶ 2019 E-commerce is estimated to be 9.8%, a 38% increase

- ▶ Results
 - ▶ Brick and mortar adjustments being made across industries
 - ▶ Rethinking of entire chain from logistics centers to stores
 - ▶ Big Box closures, resulting in redevelopment opportunities

Market Trends – Aging Demographic

- ▶ Why do we need to continue to consider the aging demographic?
- ▶ How does an aging demographics needs change?
- ▶ What impact will this have on the CRE market demands?

Impact of Aging Demographic on Market

Why do we need to continue to consider the aging demographic?

- ▶ With medical advancements and more readily available healthcare, people are living longer than other previous generations
- ▶ Harvard Center for Housing & AARP estimates by 2030 there will be 132 million people in the U. S. over 50 years old
- ▶ This is up 70.0% from the 2000 estimate of 78 million

Impact of Aging Demographic on Market

How does an aging demographics needs change?

- ▶ Often times living accommodations must change, as well as many prefer less “work intensive” housing
- ▶ Typically less taxes are collected from this group
- ▶ As citizens age, they shift their spending habits from consumer goods to focus more on necessities including healthcare
- ▶ Different service requirements, need for more medical services than retail services
- ▶ Goods and services nearby for walkability and transportation accommodations

Impact of Aging Demographic on Market

What impact will this have on the CRE market demands?

- ▶ Need for senior housing, zero-lot lines, and assisted living centers
- ▶ Transportation accommodations, such as mass transit and senior transportation services
- ▶ Medical facilities with an adequate supply of service providers
 - ▶ Seen as a boom for the development of the healthcare industry
- ▶ Medical facilities and retail will need to be accessible to the housing and transportation accommodations

Densification

- ▶ How do we meet the needs of the growing market demands from Millennials and the Aging Demographic?
- ▶ What are the concerns with densification?
- ▶ How do we create something the communities want, and will support?

Densification as the Solution

How do we meet the needs of the growing market demands from Millennials & the Aging Demographic?

- ▶ Continued expansion outside the current footprint is limited due to increasing costs
- ▶ The convergence of the Aging Demographics (132 million) needs and the Millennials (92 million) preferences for a “live, work, play” community support densification projects
- ▶ It will become necessary to satisfy the housing demands of a +/- 200 million person market
 - ▶ Metro Atlanta: Atlanta Regional Commission estimates an additional population of 3 million people in the next 25 to 30 years will create additional needs in the Atlanta housing market



Densification as the Solution

What are the concerns with densification?

- ▶ Most suburban areas already have limited raw land and opportunity for new projects to be developed in centrally located areas
- ▶ Local planning and zoning regulations need to be adapted to accommodate development and redevelopment projects
- ▶ Many cities receive pushback from citizens who moved to the suburbs for the larger backyards and “quiet” suburban life.
- ▶ Densification, with the “NIMBY” resistance and negative opinions of what densification means, can be seen as a political issue in many areas
 - ▶ Perceived impact on property values
 - ▶ Perceived impact on convenience and daily living



Densification as the Solution

How do we create something the communities want, and will support?

- ▶ Centrally located projects
 - ▶ New developments - Extremely limited opportunity
 - ▶ Redevelopment of existing centers
- ▶ NIMBY concerns can be reduced with projects that focus more on utilization of space
- ▶ Mixed-Use “Lifestyle Developments” become key
 - ▶ City within a city developments featuring Park, Restaurants, Retail, Office, Medical, Grocery, and Living, all in one center
- ▶ Creative Developments that increase community desired needs
 - ▶ Developments focused on filling a market niche or gap, i.e., Specialized Retail, Movie Theater, Artist Gallery, Unique Eateries located within a development

Technology and the Market

- ▶ How does technology impact the market?
- ▶ How does technology change the market?
- ▶ How can technology create an opportunity within the market?



Technology and the Market

How does technology impact the market?

- ▶ There is a vast amount of information available online and readily available 24/7
 - ▶ Zillow, Truilla, Realtor.com, CoStar, Loopnet
- ▶ Accuracy of the data continues to be an issue, but will begin to be managed better
 - ▶ So many sources available, some will disappear, while others improve data reliability
- ▶ Online transactions are now possible in almost all market sectors, including CRE
 - ▶ Millennials prefer to utilize tech in all aspects of their daily lives



Technology and the Market

How does technology change the market?

- ▶ Multiple platforms available from mobile devices to computers
 - ▶ Websites and Apps allow users to do more on the go; order food, secure transportation, shop for a home
- ▶ Technology is more efficient resulting in cost savings
 - ▶ Chick-fil-a utilizes mobile devices outside with an employee completing orders to speed up drive-thru times
 - ▶ Apple allows users to purchase some in-store items directly on their device using their App and EasyPay feature for self checkout
- ▶ Efficiency and accessibility for all users without the need for specialized staff
 - ▶ Grocery stores now offering customers app and online grocery orders with delivery and curbside pickup
 - ▶ Built-in assistive technology on devices reduce the need for specialized staff and services in retail locations

Technology and the Market

How can technology create an opportunity within the market?

- ▶ “Educated” Tech Savvy Buyers and Sellers
 - ▶ Do their research before they shop and have a better idea of what they want, make decisions faster and want to receive products faster
- ▶ 24/7 Access to create and finish deals wherever and whenever
 - ▶ Consumers have the ability to complete a transaction anywhere, and at their convenience, driving business forward
- ▶ Consumers are looking for the convenience of technology driven consumerism and are now more willing to do everything online versus in person
 - ▶ Homes can now be purchased and refinanced with little need to leave the comfort of one’s own living room

Summary

Millennials and an aging demographic will create CRE opportunities as never seen before. These opportunities and solutions will impact the way we live, work, play and shop.