Vision 2020: Navigating Current and Future Trends and Opportunities for the Next Decade in Commercial Real Estate

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A Grounding Thought
Before we focus on what could change.....
.....Let's consider what will not likely change!
I very frequently get the question: "What's going to change in the next 10 years?" And that is a very interesting question; it's a very common one. I almost never get the question: "What's not going to change in the next 10 years?"..., we know that customers want low prices, and I know that's going to be true 10 years from now. They want fast delivery; they want vast selection.

It's impossible to imagine a future 10 years from now where a customer comes up and says, "Jeff, I love Amazon; I just wish the prices were a little higher." "I love Amazon; I just wish you'd deliver a little more slowly."

Jeff Bezos, Amazon
Current/consistent income is valuable
  ◦ Even more so when interest rates are low
Prime locations command prime values/rents
People always need a place to live
  ◦ And work, shop, play, etc.
Real estate is unique in that each property is a literal monopoly at its address
Unique tax, legal, and financing factors make CRE one of the most profitable assets of all time
Before we talk long term....
.....Let’s discuss the short term!
National Economic Perspective
First, let’s address the question of the moment...
.....Is a recession near?
Yield Curve – A warning sign or a head fake?

- September 2019
- September 2018

Source: Stockcharts.com
Yield Curve – A warning sign or a head fake?

- September 2019
- February 2007

Source: Stockcharts.com
Factors Suggesting Recession Is Near/Imminent

- Trade wars are rattling the business community and a threat to consumers.
- Business investment turned NEGATIVE and CEO confidence in decline territory.
- Global market uncertainty high – ex. Hong Kong & BREXIT.
- Current expansion now longest in history....
Factors Suggesting the Growth Cycle Will Persist

- Consumer is confident and financially healthy.
- Interest rates are falling and Fed is moving fast.
- U.S. actually looks really stable, on a relative basis.
- We actually can experience “micro-recessions” and have done so during this current cycle.
GDP – Growing Slow-er, but still in Robust Territory (2.0% vs 3.1%)

United States | GDP

Source: U.S. Bureau of Economic Analysis (BEA)
Jobs – Still Growing, Labor Supply Constraints Evident

United States | Total Employment & Unemployment Rate

Source: U.S. Bureau of Labor Statistics (BLS)
Jobs – Growth in Construction Remains Positive

United States | Construction Employment

Source: US Bureau of Labor Statistics (BLS)
Jobs – More Warehouses Means More Jobs

United States | Transportation & Warehousing Employment

Source: U.S. Bureau of Labor Statistics (BLS)
Jobs – Manufacturing Taking a Pause, but still in Growth Mode

United States | Manufacturing Employment

Source: U.S. Bureau of Labor Statistics (BLS)
Jobs – Office Using still very fast growing

United States | Office Using Employment

Source: US Bureau of Labor Statistics (BLS)
Income – Continues to Grow Faster than Inflation

United States | Total Personal Income

Source: U.S. Bureau of Economic Analysis (BEA)
Retail Sales – Still Advancing at Strong Pace

United States | Total Retail Sales

Source: U.S. Census Bureau
Manufacturing – Taking a Pause after Multi-year Advance

Source: U.S. Census Bureau (BOC)
Business Investment – Reversal to Negative Growth (−1.1%–Q2)

United States | Private Fixed Investment [Non-Residential]

Source: U.S. Bureau of Economic Analysis (BEA)
Residential Investment – Continues to Contract

United States | Private Fixed Investment [Residential]

Source: U.S. Bureau of Economic Analysis (BEA)
Economic Picture Becoming Less Clear

- Jobs/Employment still beautifully strong (historically)
  - Still more open jobs than unemployed (skills gap issue)
- Fixed Investment – Business & Residential – In mild decline
- Interest rate outlook now flat or negative (BIG reversal)
- Recessionary fears much higher, trade wars catalyst
- Overall little real change in current data, still stable/growing
Vision 2020 – The Long Term
The 2020s are going to be a decade defined by technology integration and adoption
Tech Trends To Follow

- Tech developed in last two decades will begin mass adoption

- Most likely to impact real estate in 2020s
  - Building Information Systems/Smart Buildings
  - Sustainable/Energy Efficient Design
  - Space Optimization Tech (WeWork meets Uber)

- For CRE, 2020s will see more disruption than past two decades

- Workforce and Workspaces not left alone
The globe is also getting ever more connected

....Traveling for business and leisure will be cheaper than ever, and will occur more than ever
Market Trends for Next Decade

1. Space as a Service (SaaS)
   ◦ Fortune 500 and Start-ups will demand it
   ◦ Capture higher rents by embracing it

2. Co-Living is the New Co-Working
   ◦ Not new, but adult “dorms” will be a thing
   ◦ Landlords can profit from dynamic space utilization

3. Micro-Urbanism
   ◦ Downtowns exist everywhere, not just in the majors
   ◦ Small and medium markets may outperform larger ones
4. Micro-Manufacturing/Small Scale Distribution
   ◦ Industrial can be hip/urban/mixed-use
   ◦ Centrally located industrial will be in high demand

5. Dual-DINK Demographics
   ◦ Childless households will dominate from all ages
   ◦ Will drive mixed-use repurposing of prime retail

6. Democratization of Global Travel
   ◦ Aero-connectivity will decide growth trends
   ◦ Aerotropli will soar, follow path of people movement
7. Democratization of Investment Opportunities
   ◦ Individuals will control assets directly more often
   ◦ Real estate allocations will come from new sources

8. Infrastructure Failure and Constraints
   ◦ Will cripple growth in many markets/sub-markets
   ◦ Must “score” a market’s infrastructure in due diligence

9. Regulatory Drag and Misalignment
   ◦ Hard to innovate with centuries old laws still in place
   ◦ Regulatory risk is non-trivial in unique ways
Market Trends for Next Decade

10. Labor Market Shortage and Misalignment
   ◦ Tech-centric replaces “labor” centric workforce
   ◦ Use to advantage in asset/property management

Summarizing the Trends
   ◦ Accelerating adoption of technology vs….
   ◦ Functionally obsolescent business models

Each is an opportunity and threat
   ◦ Markets must be carefully analyzed
   ◦ A “stock pickers” approach will do best in 2020s
Remember, it’s PEOPLE that define an economy....
Meet Generation Z – Born Teched Out

- Those under age 24 are Generation Z
  - .....Name is unclear – but iGen or Echo Boom suggested

- Received a smart phone in elementary school
  - .....No need for maps, dictionaries, etc.

- Social media savvy and connected
  - .....Face to face human interaction, not so much

- Used to instant gratification and “winning”
  - .....Comes from a “game-ificiation” of life
This younger generation will enter the workforce in the 2020s, and just think about what “millennials” have done
Final Thought for the 2020s
Much risk is in short term focus...
.....but long term prospects look very good!
This could be the next Roaring 20s!
The world keeps getting better and better....
The world keeps getting better and better....

.....Yet we think it’s falling apart
Questions?
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