ACEC Private Industry Brief

Commercial & Residential Real Estate

June | July 2018

ACEC's Private Industry Briefs

Welcome to the inaugural issue of a new, bimonthly series on various private-sector markets of interest to ACEC member firms. Even though this issue focuses on Commercial & Residential Real Estate, future issues will focus on other private-sector markets.

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Top Development Firms

According to *Commercial Property Executive's* annual rankings, the current Top 10 Development Firms and the building types they specialize in are:

1. **Trammell Crow Co.** (O, I, R, M, H, He, X)
2. **Hines** (O, I, R, M, H, X)
3. **Related Cos.** (O, R, M, H, X)
4. **Wood Partners** (M)
5. **Greystar Real Estate Partners** (R, M)
6. **Related Group** (R, M, H)
7. **Duke Realty** (O, I, He)
8. **Liberty Property Trust** (O, I)
9. **Majestic Realty Co.** (O, I, R)
10. **LMC, A Lennar Company** (M)

Building types key: O=Office, I=Industrial, R=Retail, M=Multifamily, H=Hospitality, He=Health Care, X=Other.

5 Current Market Trends

- **1. Industrial/Distribution:** For the fifth straight year, the industrial/distribution market is the top-ranked property sector for investment and development in *Emerging Trends in Real Estate 2018* (pwc & ULI). Demand is generally credited to the rise of e-commerce, and supply of such properties is only now catching up with demand. Buildings are trending larger and developers that may have typically concentrated only on office space are getting involved in industrial projects. The growing appeal is not just for U.S. investors and developers. Industrial real estate has ranked first each year since 2013 in the annual survey by the Association of Foreign Investors in Real Estate (AFIRE); in 2010, industrial real estate was the lowest-ranked among property types.

- **2. Retail:** The retail market is going through a significant change, primarily due to e-commerce. Regional malls were introduced in the 1950s, and big box retail took off in the 1980s, but the last few years has seen a rise in online shopping and a shift in how and where Americans spend their money.

Current Market Trends continues on the following page.

What facility types are growing?

According to *Emerging Trends in Real Estate 2018* (pwc, ULI), the top five growth markets are:

1. **Fulfillment**
2. **Warehouse**
3. **Senior housing**
4. **Moderate income/workforce apartments**
5. **Medical office**

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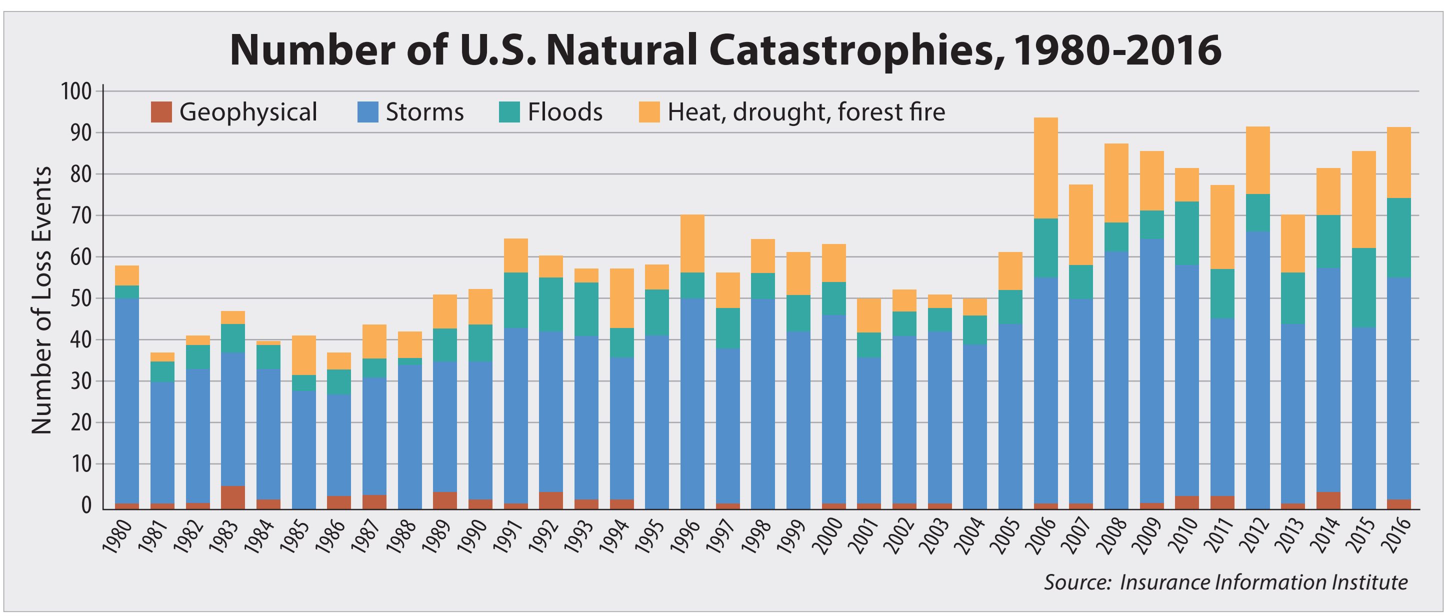
Current Market Trends, *continued*

Shoppers spend less on clothes and accessories and more on big-ticket items, such as automobiles and technology, as well as experiences, such as travel and food. Retail spending is growing, but money is not being spent in the same physical spaces as in the decades past. Full-priced department stores, such as Macy's, JCPenney and Sears, have closed hundreds of stores. Meanwhile, the fastest growing segment of the retail market (who generally are owner-users) is in the discount segment, including Dollar General, Dollar Tree, Family Dollar, and Aldi. According to *Business Insider*, in 2018, Dollar General planned on opening 900 stores; Dollar Tree 320; and Family Dollar 300. This is followed by Aldi with 180. Aldi operates 1,750 stores in 35 states and is planning to reach 2,500 stores by 2022, according to the company.

- **3. Natural Disasters/Catastrophes:** Impacts of natural disasters on real estate were significant in 2017 as Hurricane Harvey flooded Houston and the Texas Gulf Coast, and two more hurricanes (Irma and Maria) impacted Florida, Puerto Rico, and the Caribbean. If it seems like a rise in natural disasters is trending, it is not your imagination (see chart below), as there has been a long-term rise in significant natural disasters since 1980. Between 2007 and 2016, the insured property losses from natural catastrophes exceeded $200 billion. Rising sea levels are also expected to have a continued impact on major cities such as Boston, New York, Norfolk, and Miami. How local zoning and building codes, along with insurance requirements, change development practices remains unknown.

- **4. Housing:** Demand for housing remains strong, due to both the large generations of Millennials still renting and transitioning to home ownership, and Baby Boomers downsizing. Experts predict that the market will level off in 2019-2020, with a possible renewed focus on suburban developments. According to CBRE, 22.6 percent of multifamily units under construction are in urban cores, which is the result of a 20-year trend that began in 1997 at just 7.6 percent. CBRE also notes that in a recent survey of investors, 60 percent wanted to increase development of senior housing, with the evolving 'independent living' market segment as a target. This corresponds with the *Emerging Trends in Real Estate 2018* profile of the top future developments within residential real estate: 1) senior housing; 2) single family-moderate/workforce; 3) multi-family condominiums; 4) single family-high income; and 5) master-planned communities.

- **5. International Owners/Investors:** The trend of U.S. real estate attracting foreign owners/investors continues to grow. Global investment in U.S. real estate is about 16 percent (2014-2017, source: Real Capital Analytics), and no longer includes just first-tier cities, but also second and even third-tier cities. New York and Los Angeles are tied for being the number one U.S. cities for foreign investment. New York has held that distinction for seven years running; however, Los Angeles has gained traction in recent years due to its port and connection to industrial real estate opportunities. "The cargo coming into the Port of Los Angeles represents 43 percent of all cargo coming into the United States. Respondents also say online shopping is likely to have the biggest effect on real estate over the next five years," says Jim Fetgatter, chief executive of AFIRE. The top five countries where investment comes from are: 1) China; 2) Canada; 3) Germany; 4) Singapore; and 5) South Korea (source: Real Capital Analytics).



Government Affairs Action

- **Section 179D Tax Deduction:** ACEC recently submitted a statement to the House Ways and Means Committee in support of extending the Section 179D energy-efficient commercial buildings tax deduction, which expired in December 2017. The committee is reviewing such deductions in the context of the newly revised tax code, and committee leaders publicly expressed interest in eliminating most of the expired provisions. ACEC is advocating for their extension in the next tax legislation considered by Congress. Section 179D allowed private building owners to claim a $1.80 per-square-foot deduction for the installation of certain energy efficient systems.
- **Brownfields:** ACEC was supportive of legislation passed by Congress to reauthorize federal programs in support of brownfield redevelopment as part of the FY'18 Omnibus appropriations bill. The "BUILD Act" provides local governments with increased liability protection to facilitate redevelopment, and authorizes additional funding for site cleanups. The new law increases grant funding limitations for sites from $200,000 to as high as $650,000, as well as "multipurpose" grants up to $1 million for bundled projects. The Environmental Protection Agency (EPA) estimates the United States has more than 450,000 brownfield sites. Such sites are typically contaminated from abandoned manufacturing and industrial activities. According to the EPA, every $1 invested in redevelopment yields an average of $16.99 in return, and every $100,000 invested in brownfield redevelopment creates 8.9 jobs.
- **National Flood Insurance Program:** Since 1968, the National Flood Insurance Program (NFIP) has offered protective coverage for homeowners, renters, and small businesses. The commercial real estate industry supports the long-term reauthorization and reform of NFIP, as well as an expansion of private-market protections.
- **Wetlands Reform & Water Infrastructure:** ACEC is actively engaged with Congress to support funding and financing mechanisms for water and wastewater infrastructure improvements necessary to facilitate commercial and residential development. Language is included in the Senate version of the Water Resources Development Act (WRDA) that would reauthorize and expand the Water Infrastructure Finance and Innovation Act (WIFIA) program, which provides low cost loans and loan guarantees to support water projects. The Council is also engaging with the Administration and private-sector stakeholder groups on efforts to replace the Waters of the United States (WOTUS) wetlands policy finalized in 2015 with a new rule.

Key Webinar

The "Retail Apocalypse": Understanding Market Effects and Opportunities

With the "clicks versus bricks" trend and a dramatically changing retail market, the business press is declaring a "Retail Apocalypse." Experts predict that by 2023 more than half of the U.S.'s 1,200 malls are expected to close or be substantially redesigned.

Even so, there's a rise in new design and construction opportunities in retail, and a projected growth in some submarkets, such as food and grocery.

Join Taylor Coyne and Jason Wollum via ACEC's on-demand webinar to examine the effects and opportunities of the changing retail market, including:

- Which retail subtypes are growing or shrinking
- What makes retail clients unique
- How aging indoor malls are being repurposed and renovated nationally

Webinar Presenters

Taylor Coyne, Senior Research Analyst with JLL and co-author of *A New Mall Rises: Retail Centers Renovate, Redevelop and Re-Tenant to Remain Relevant,* gives insight into retail clients and developers in this market sector, including what geographic regions and market subsectors are experiencing growth.

Jason Wollum, Retail Practice Director and Senior Vice President with Henderson Engineers, a top-rated retail engineering firm, provides insight on how engineering firms can successfully work with retail clients and what makes them different from other private-sector clients and projects.

On-Demand Link:

http://bit.do/acec-retailapocalypse

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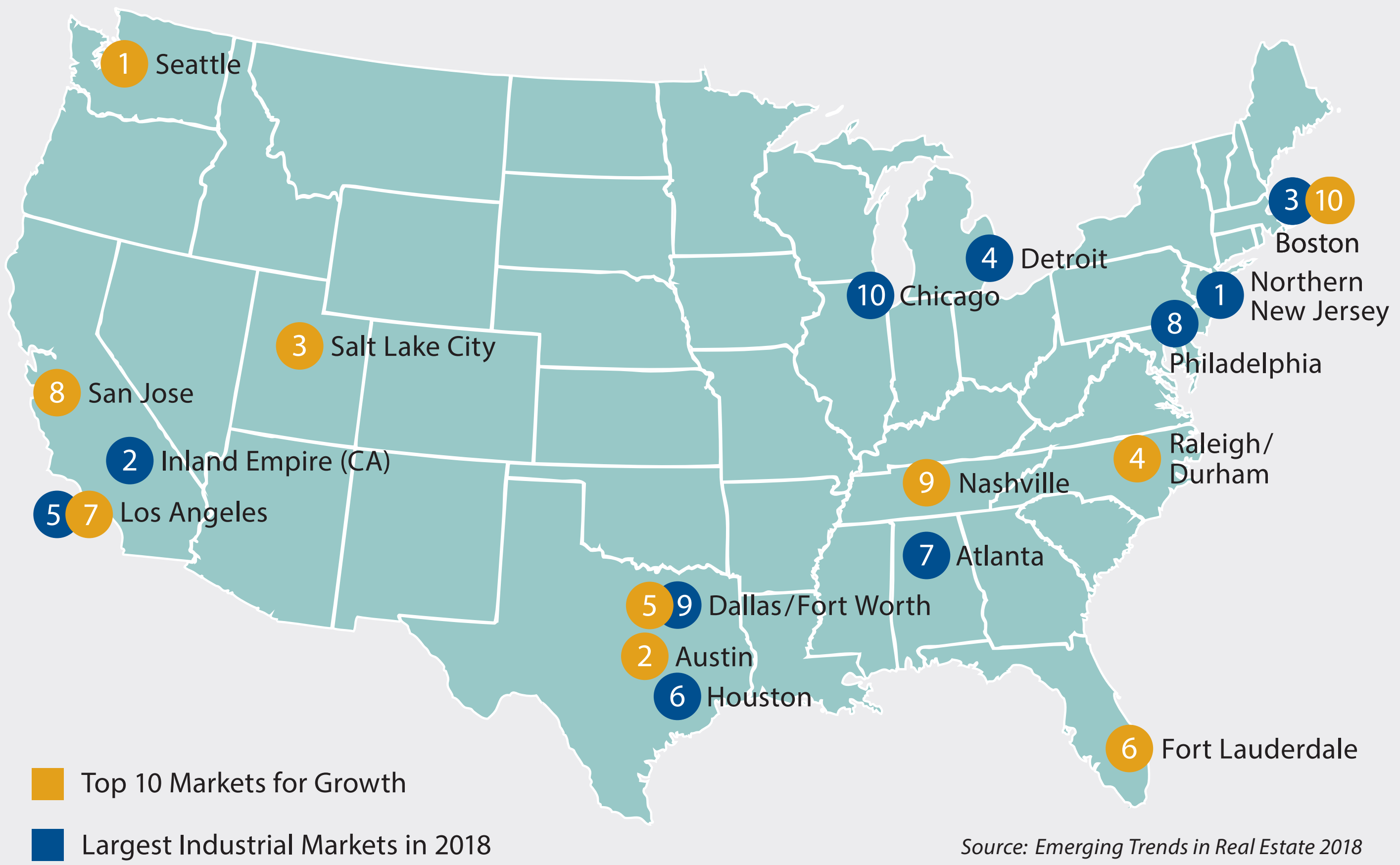

Market Scope

The **commercial and residential real estate market** is 'vertical' in nature and contains a variety of commercial and residential real estate property types, including:

- Office
- Industrial
- Retail
- Multi-family residential, including student and senior housing
- Hospitality
- Health care

Clients are typically developers and owner-users, such as large retailers.

Within the currently dynamic retail market sector, there are several different property types, unique in their physical design and popularity: urban/high street retail; neighborhood/community shopping centers; lifestyle/entertainment centers; outlet centers; power centers; and regional malls.

Key Webinar

Partnering with Economic Development in an "Amazon-HQ2" World

As we've witnessed with the Amazon HQ2 search, many Fortune 500 and industrial clients engage economic development (ED) agencies in searches and site selection processes, and engineering input is needed. Download ACEC's on-demand webinar to learn more about the role of ED agencies and how your firm can partner with them to capture new work.

Webinar Presenters

Will Hearn, Senior Vice President with CBRE's Business Location Consulting Group

Courtney Dunbar, Industrial Program and Economic Development Leader with Olsson Associates

On-Demand Link:

http://bit.do/acec-amazonhq2

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