

The Future of the Workplace and Other Real Estate Stories
Remarks by Mary Ludgin, PhD
Marquette University Real Estate Conference
September 2019



The Global Economy is Slowing Amid Rising Geopolitical Tensions

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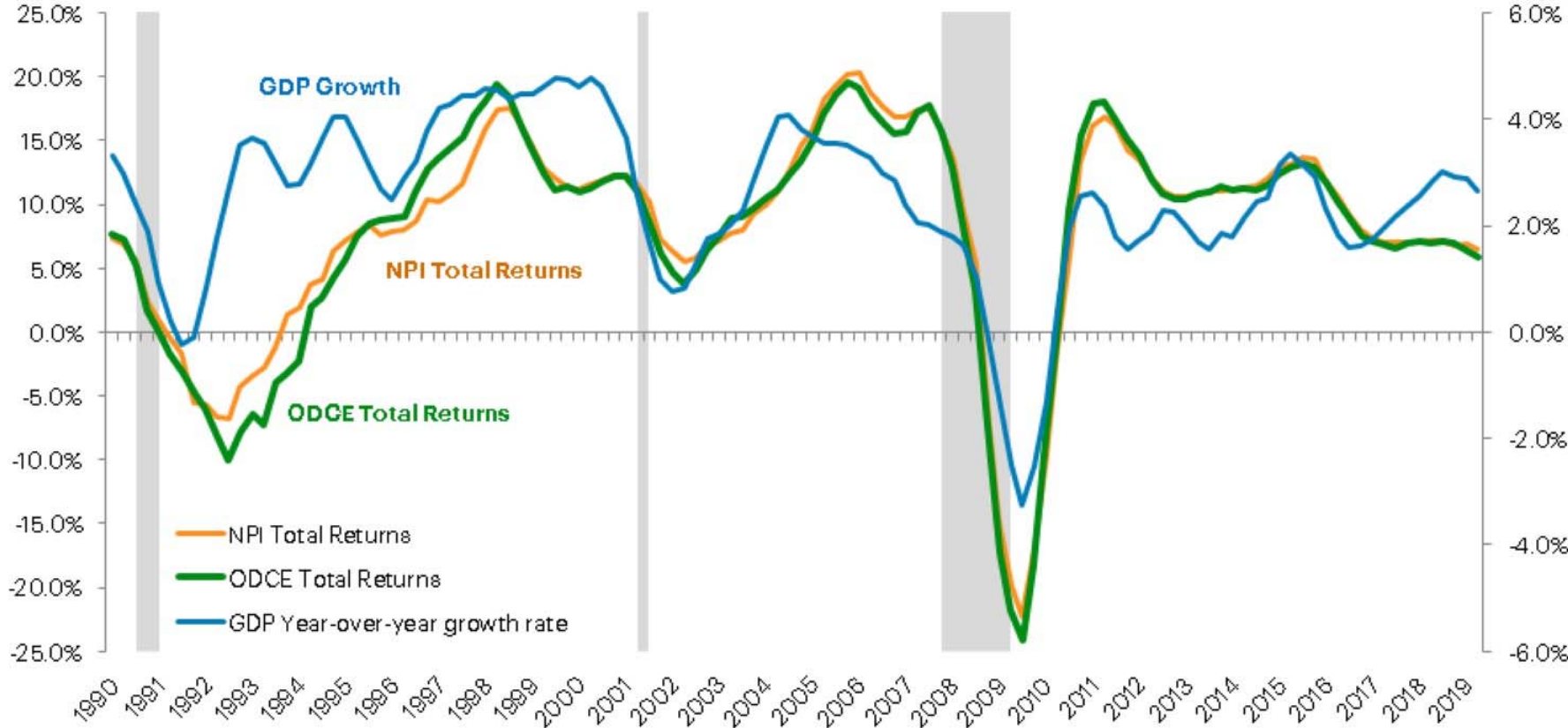


Real Estate Performance Has Plateaued

NPI AND ODCE TOTAL RETURNS VS. REAL GDP GROWTH US 1990-2019 (Q2)

One-Year Total Returns

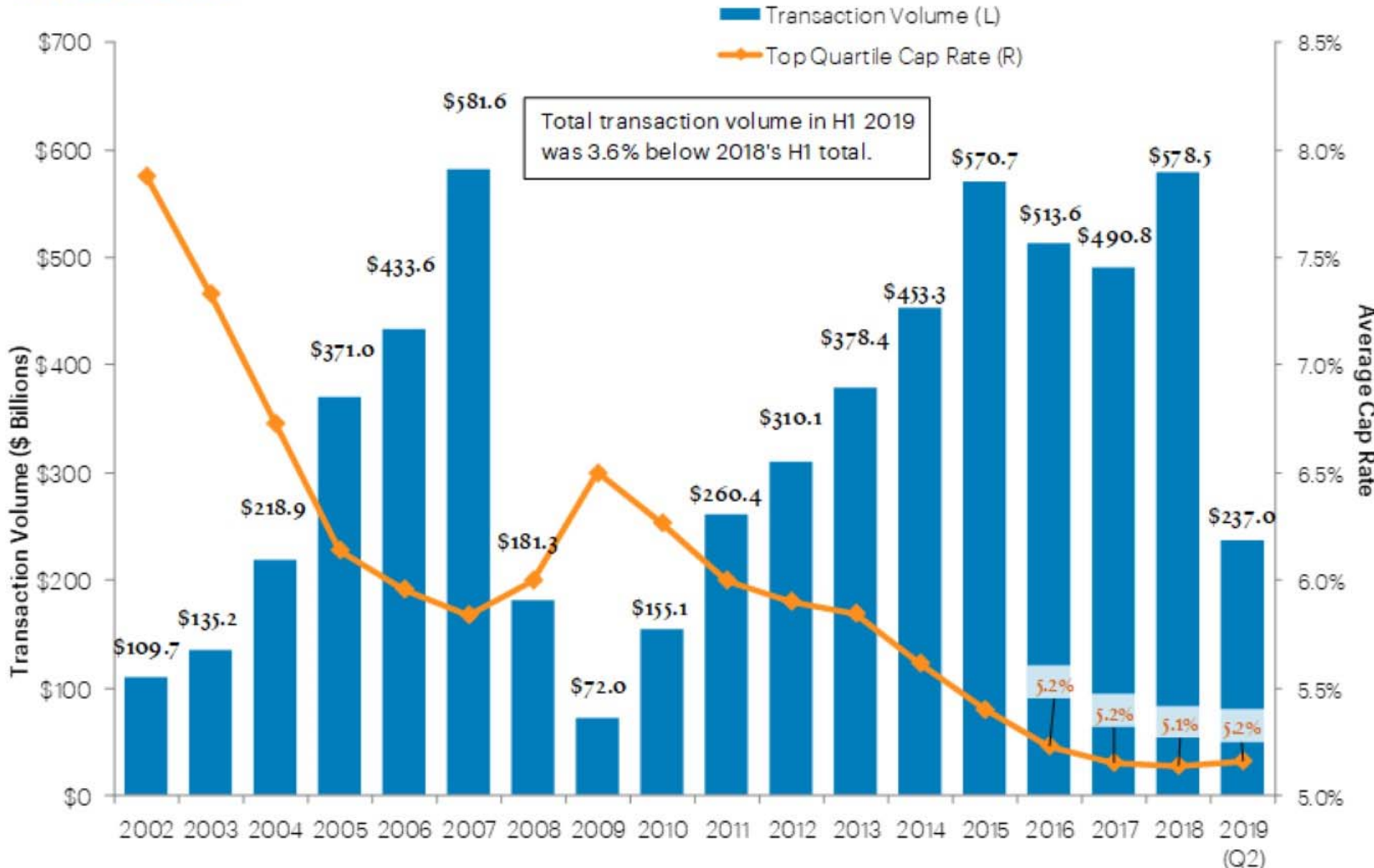
One-Year GDP Growth
(Rolling Four-Quarter Average)



Shaded areas denote recessionary periods
Source: US Bureau of Economic Analysis; National Council of Real Estate Investment Fiduciaries; Heitman Research

Transaction Volume Slowing Modestly

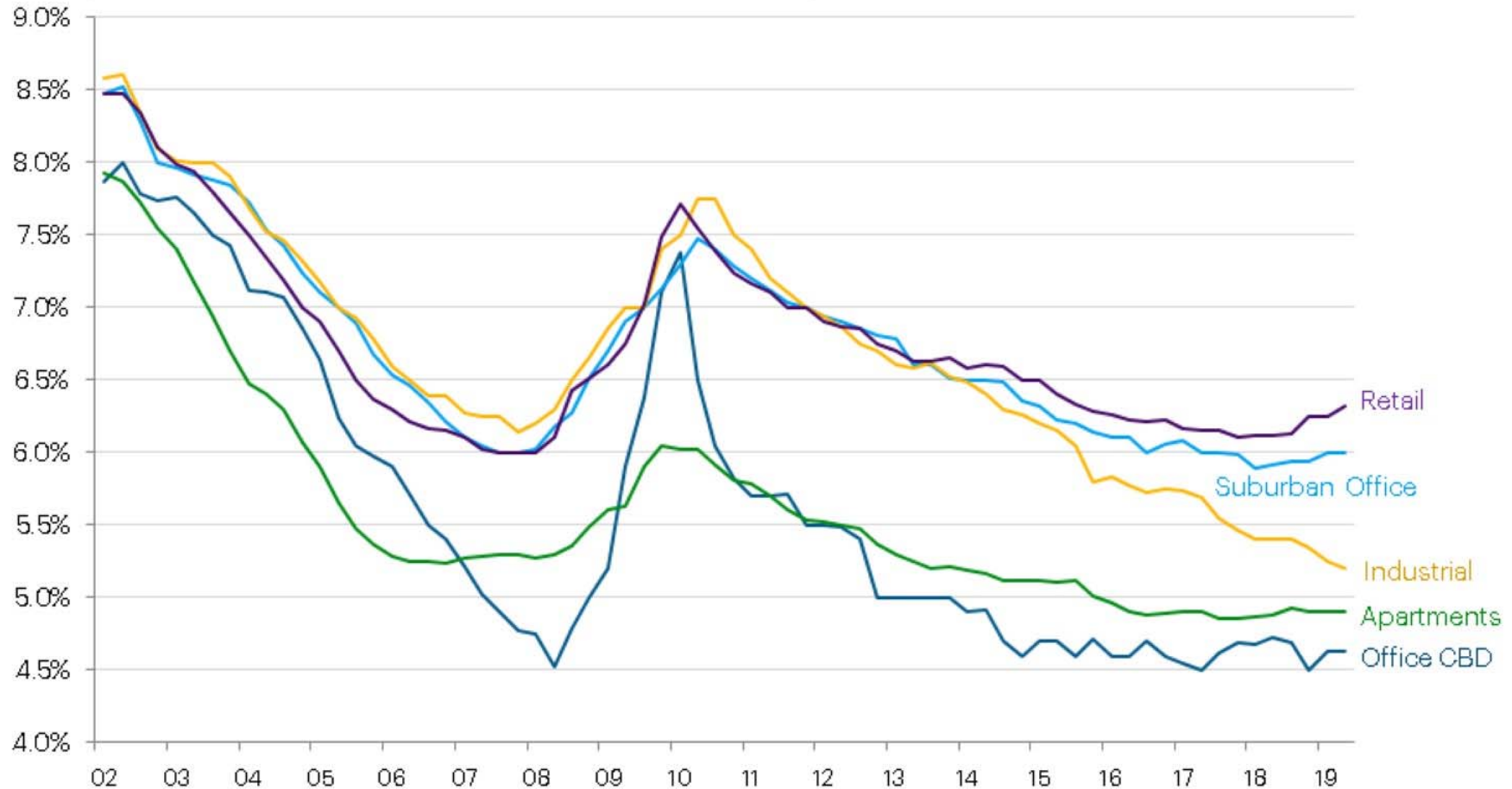
**ALL PROPERTY TYPE TRANSACTION VOLUME AND TOP QUARTILE CAP RATES
US 2002-2019(Q2)**



Source: Real Capital Analytics; Heitman Research

Cap Rate Compression Reaching Its Limits

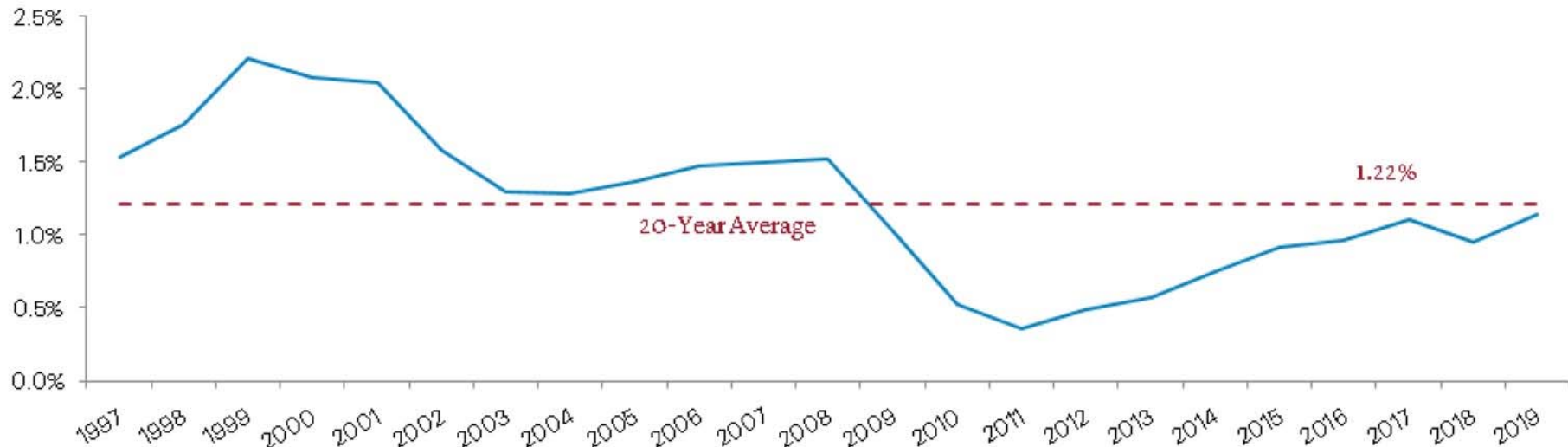
TOP QUARTILE CAP RATES BY PROPERTY TYPE US 2002-2019 Q2



Source: Real Capital Analytics; Heitman Research

Keep an Eye on Supply: Pace of Deliveries Accelerating in Longest-Ever Expansion

COMPLETIONS AS A PERCENT OF STOCK US PRIMARY PROPERTY SECTORS¹



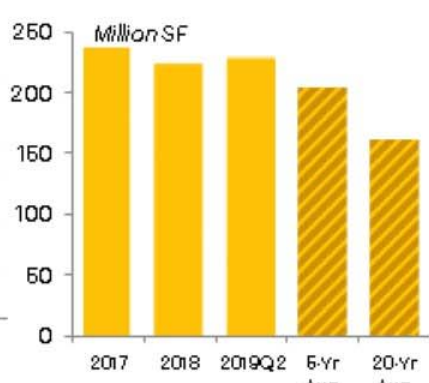
Source: CoStar, Heitman Research
1. Weighted by NCREIF sector values

RETAIL COMPLETIONS



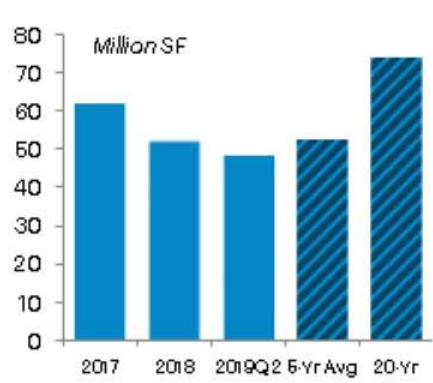
Source: CoStar, Heitman Research

INDUSTRIAL COMPLETIONS



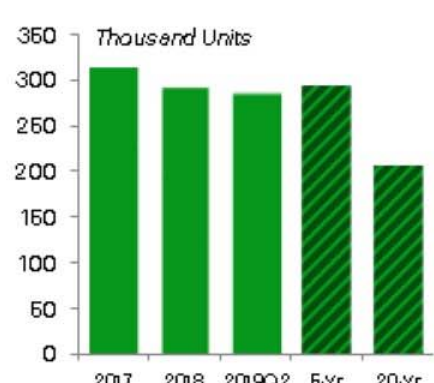
Source: CoStar, Heitman Research

OFFICE COMPLETIONS



Source: CoStar, Heitman Research

APARTMENT COMPLETIONS

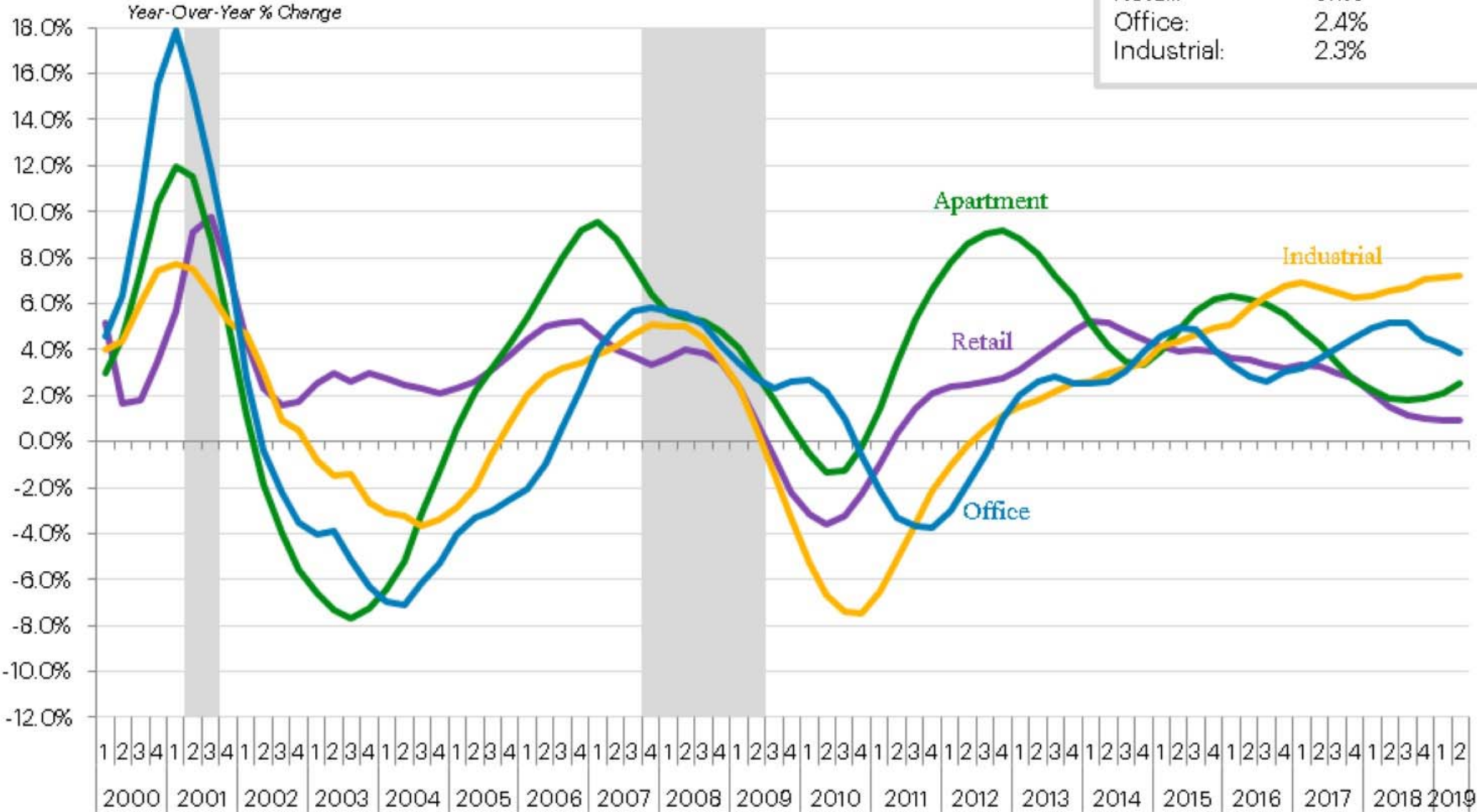


Source: Axia metrics, Heitman

NOI Growth: Reversal on the Leader Board

**SAME-STORE NOI TRENDS BY PROPERTY TYPE
US NCREIF PROPERTIES 2000-2019 (Q2)**

Long-Term Average NOI Growth	
Apartments:	3.6%
Retail:	3.1%
Office:	2.4%
Industrial:	2.3%



Source: NCREIF; Heitman Research

Historical Patterns Being Upended, Creating Risk and Opportunity

This rarely works anymore



CBD office looks solid but looks can deceive



No granite or marble but MOB's offer rock-solid cash flows



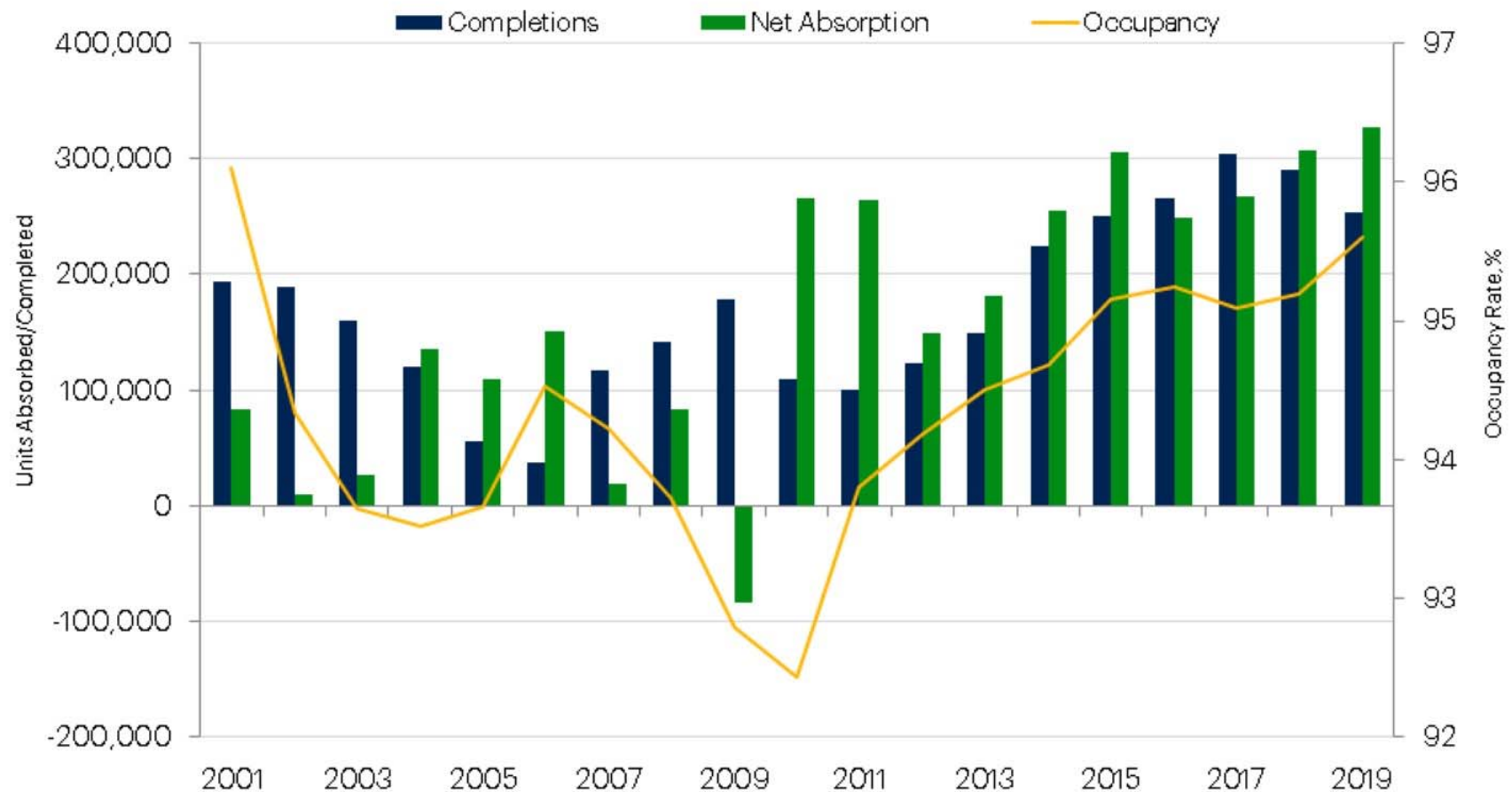
A victim of success but poised for solid performance



Apartment Fundamentals Healthy After a Pullback in Supply

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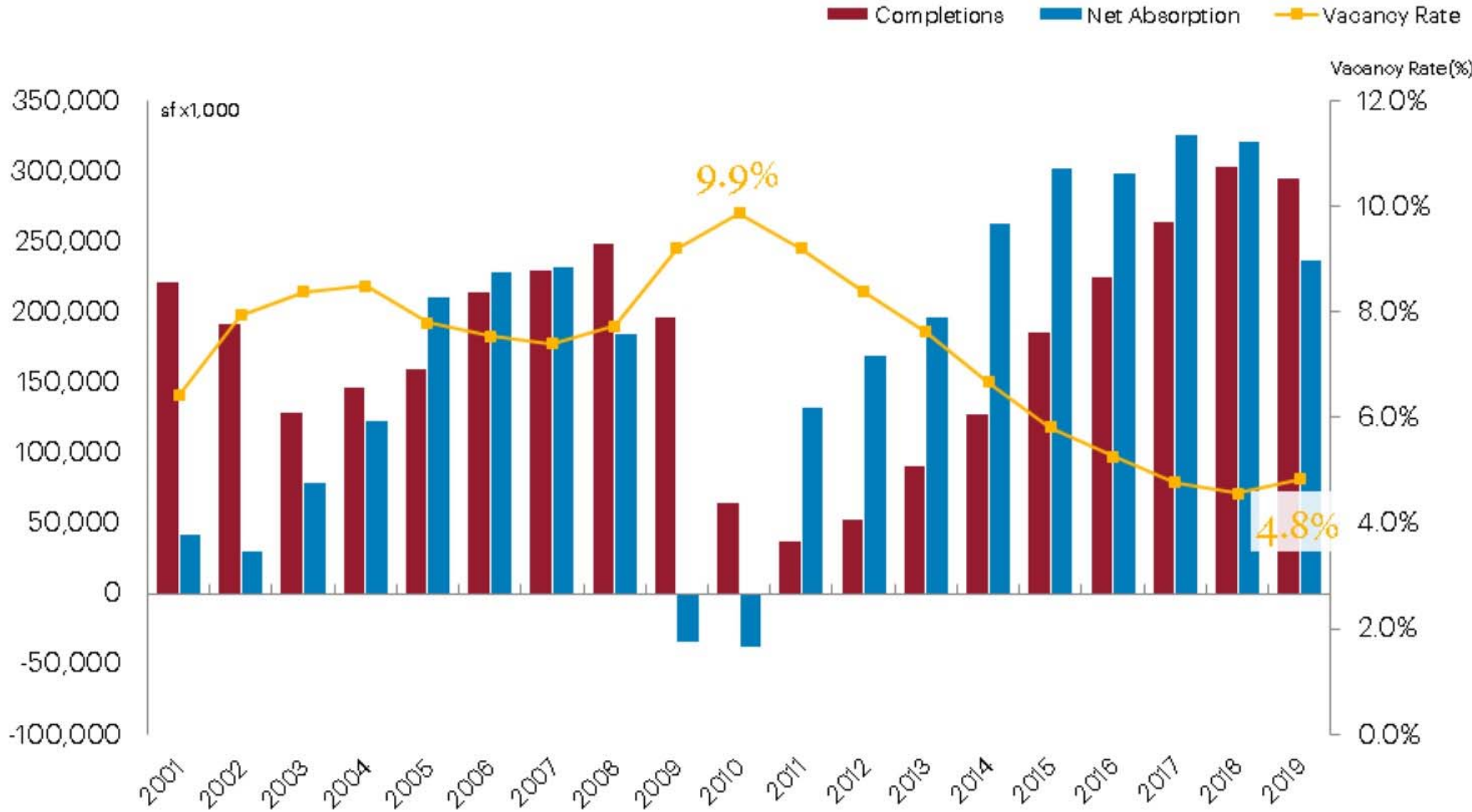
**MULTIFAMILY COMPLETIONS, NET ABSORPTION AND OCCUPANCY
US 2001-2019 YEARS ENDING Q2**



Source: Axiometrics; Heitman Research

Industrial Supply Overtakes Demand for First Time Since 2011, but Vacancy Remains Low

INDUSTRIAL COMPLETIONS, NET ABSORPTION, AND VACANCY
US 2001-2019 (YEARS ENDING Q2)

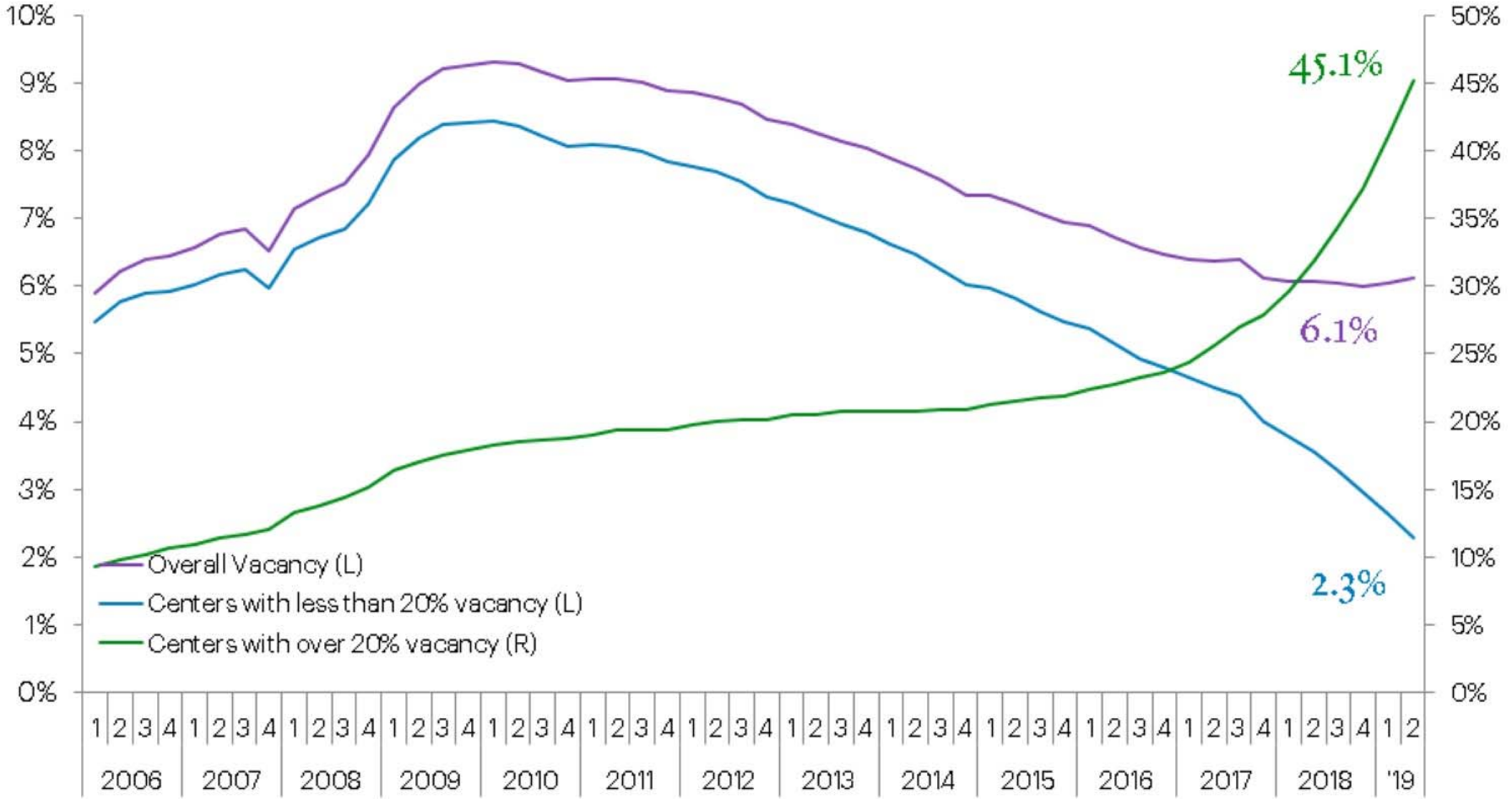


Source: CoStar, Heitman Research

Evolution in Shopping Patterns Has Widened Gap Between Winners and Losers

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**RETAIL VACANCY RATE
TOP 50 MARKETS 2006-2019 (Q2)**



Source: CoStar, Heitman Research

Don't Count Out Physical Retail: The Online-Only Model Doesn't Work

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COST PER SALE



Online customer acquisition costs are increasing

30% increase in cost-per-click on Facebook in 2018

-Merkle¹

5x increase in the number of advertisers on Facebook from 2013 to 2017

-Business of Fashion²

Online advertising is the new rent

"... it's cheaper to open a brick and mortar store than to acquire new customers online."

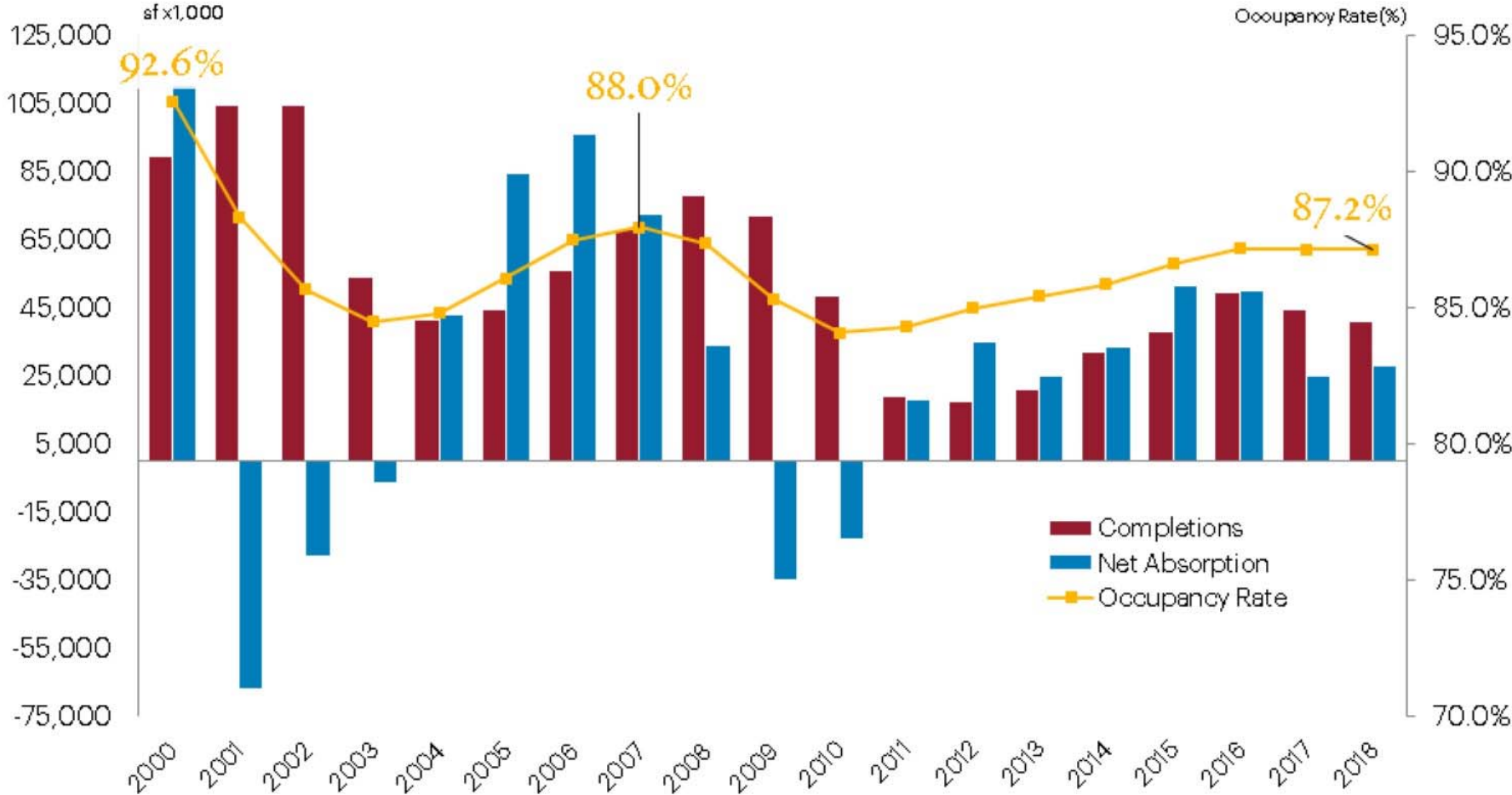
- Shilpa Shah, Cuyana Co-Founder³

1 "Measuring the Store of the Future" by Doug Stephens, June 2019
2 "For Direct-to-Consumer Brands, Scaling Isn't Easy" by Chantal Fernandez, Business of Fashion, Nov 14, 2017
3 "11 Things Retailers Just Said About The Future Of The Store" by Nikki Baird, Forbes, June 26, 2018

National Office Statistics Show Weak Recovery; Individual Market Stories Vary Widely

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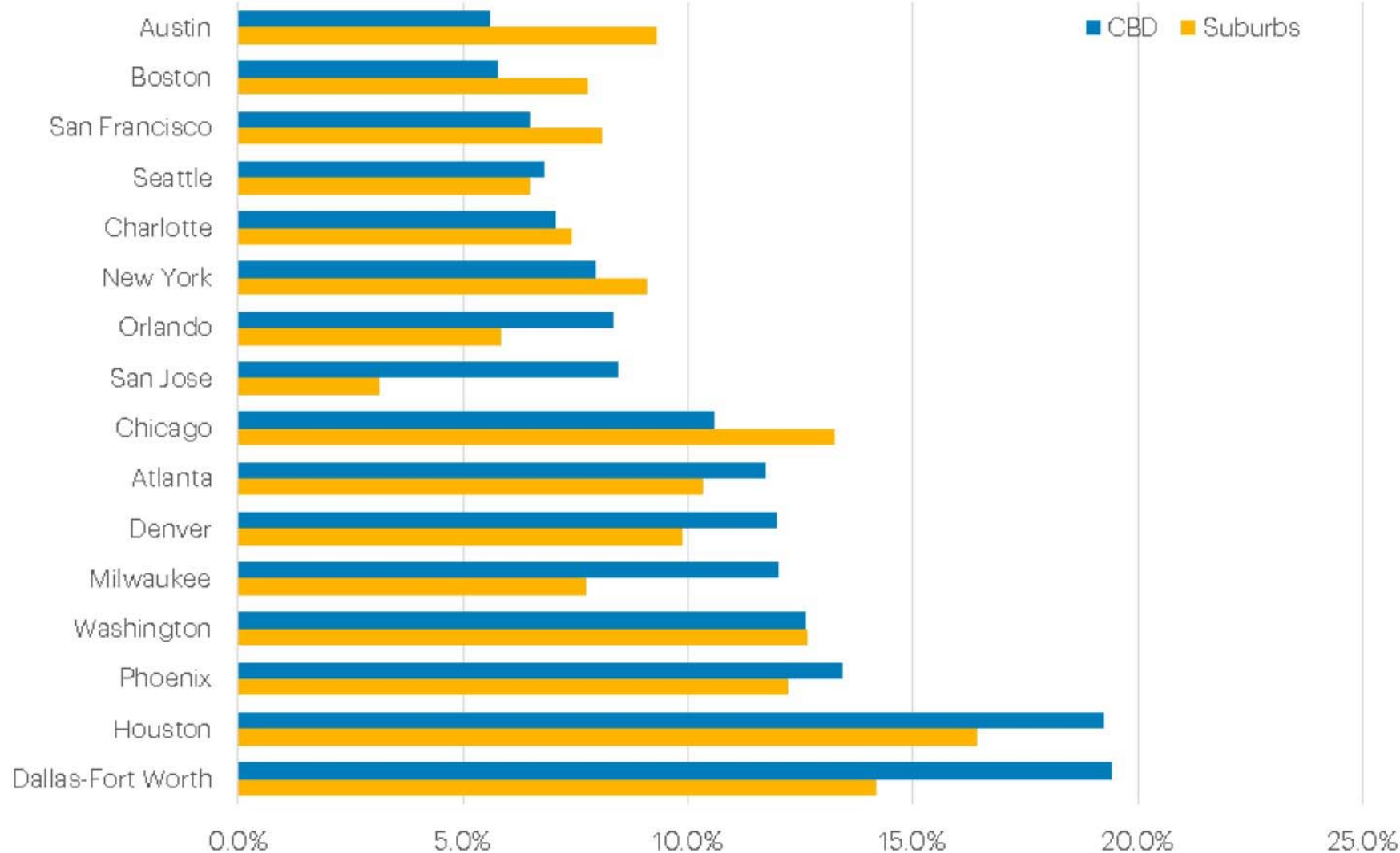
OFFICE COMPLETIONS, NET ABSORPTION, AND OCCUPANCY
US 2001-2018 (YEARS ENDING Q2)



Source: CoStar; Heitman Research

CBD Office Markets Generally Healthier

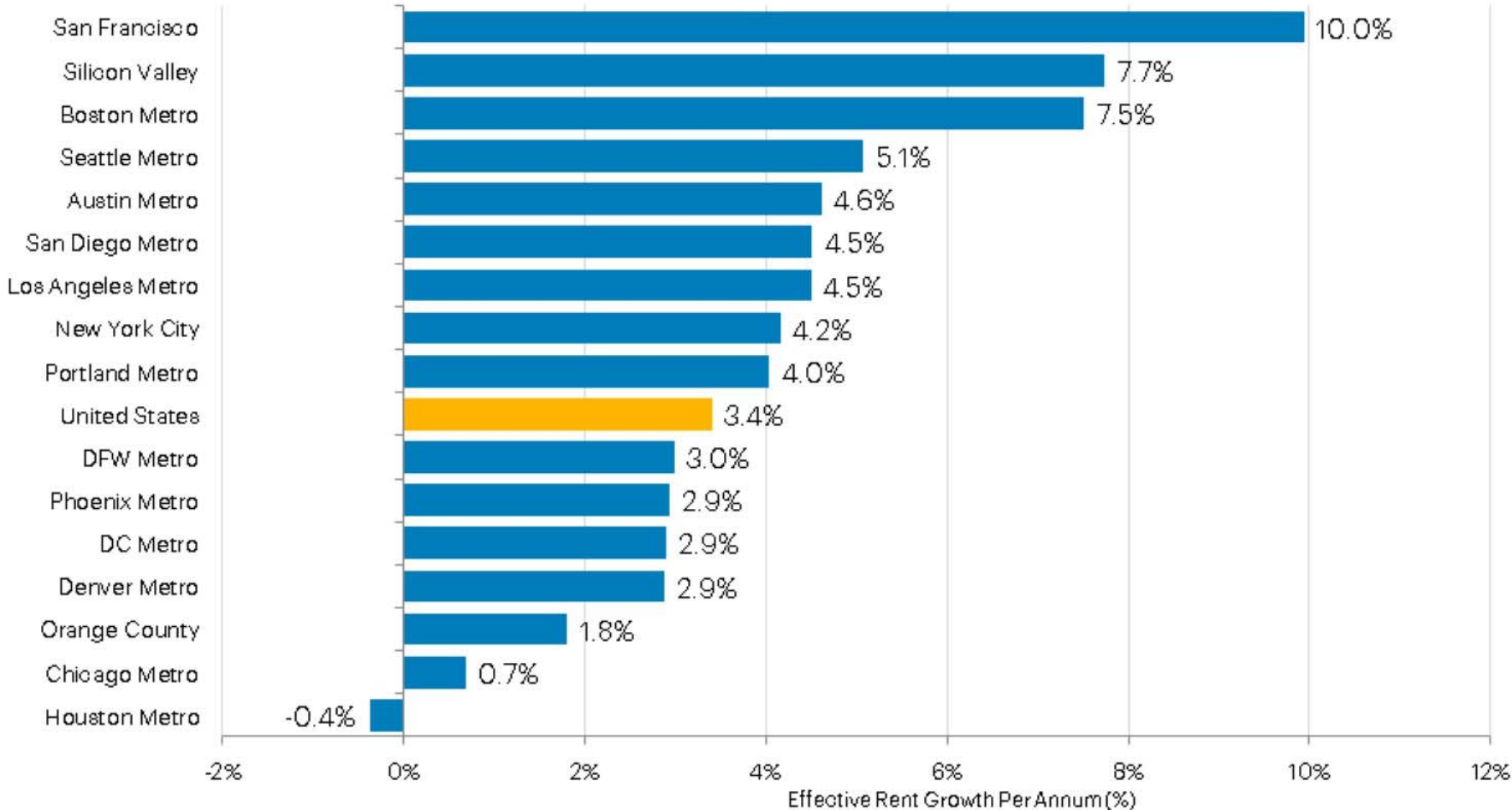
OFFICE VACANCY BY MARKET (Q2 2019)



Source: CoStar, Heitman Research

Tech-Centric, Coastal Metros See Highest Rent Gains This Cycle

10-YEAR RENT GROWTH PER ANNUM
SELECT MARKETS (JULY 2009-2019)

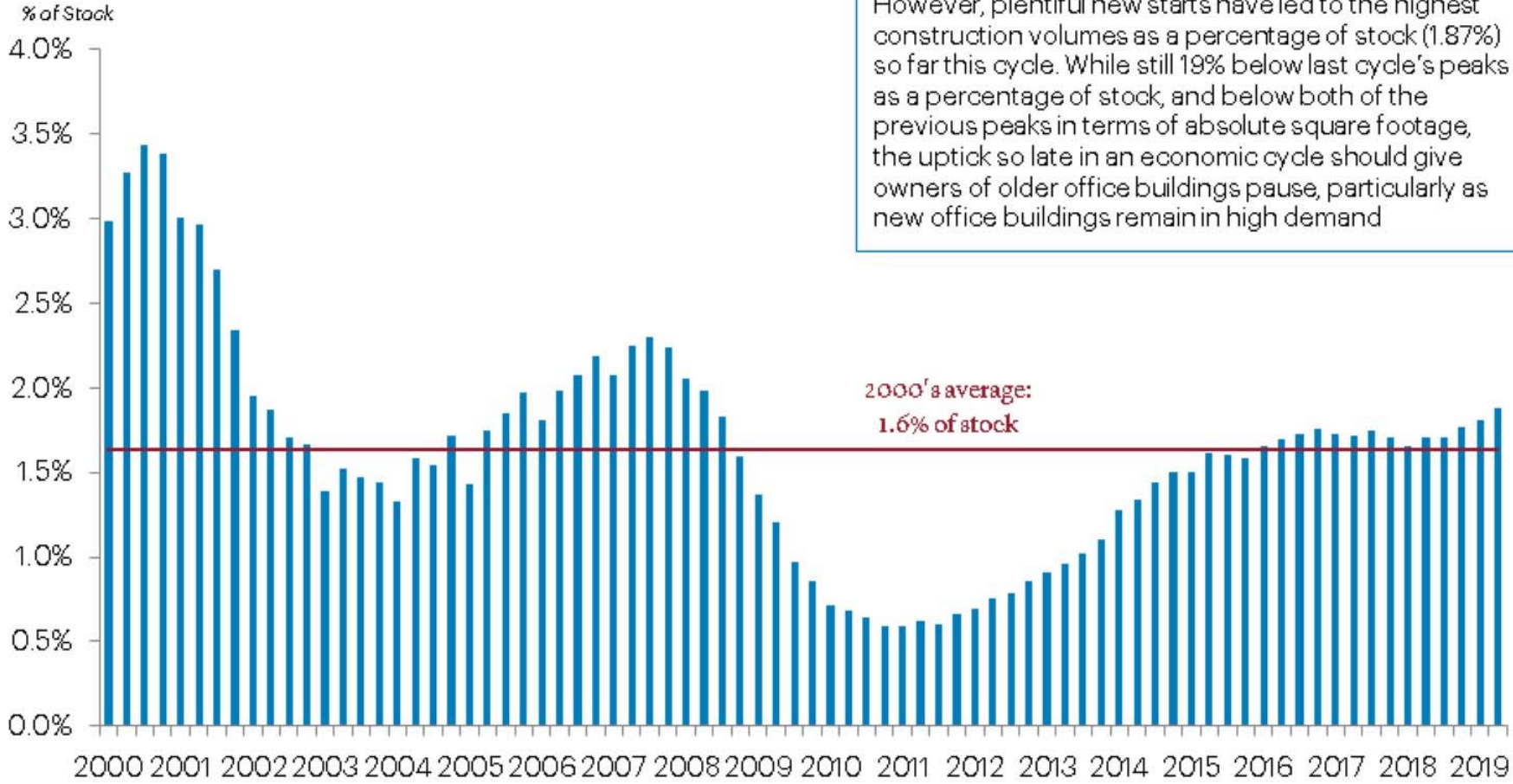


Source: CompStak; Heitman Research

Construction Near Average Levels, But Rising

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OFFICE RBA UNDER CONSTRUCTION US 2000-2019 Q2

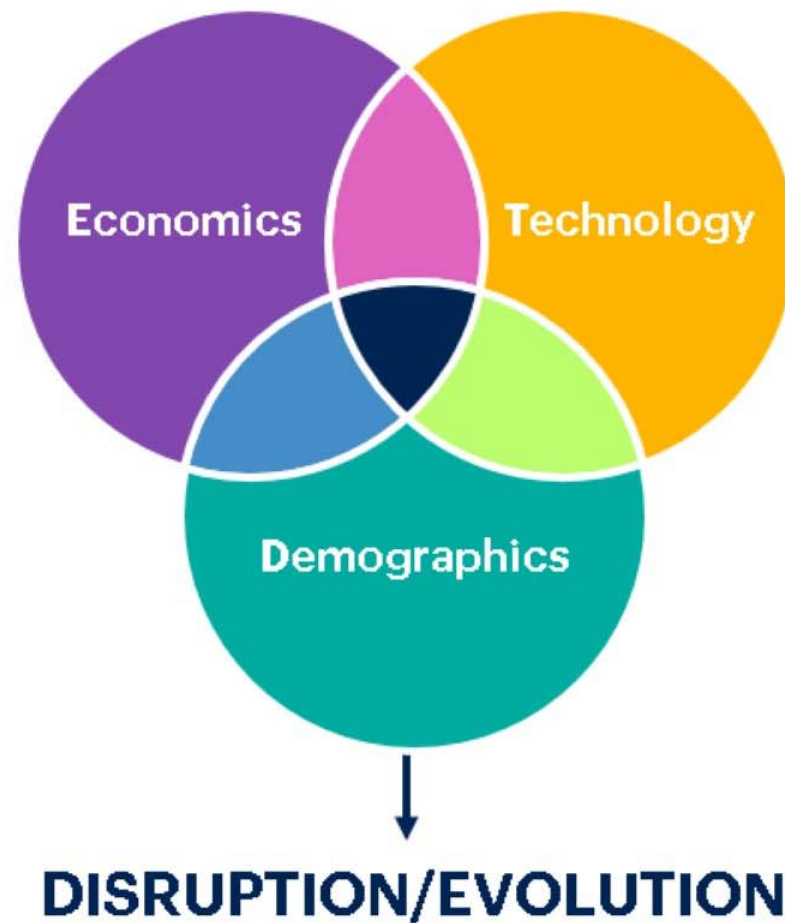


Construction volumes have not boomed like cycles prior and were thought to have already peaked in 2016. However, plentiful new starts have led to the highest construction volumes as a percentage of stock (1.87%) so far this cycle. While still 19% below last cycle's peaks as a percentage of stock, and below both of the previous peaks in terms of absolute square footage, the uptick so late in an economic cycle should give owners of older office buildings pause, particularly as new office buildings remain in high demand

Source: GoStar; Heitman Research

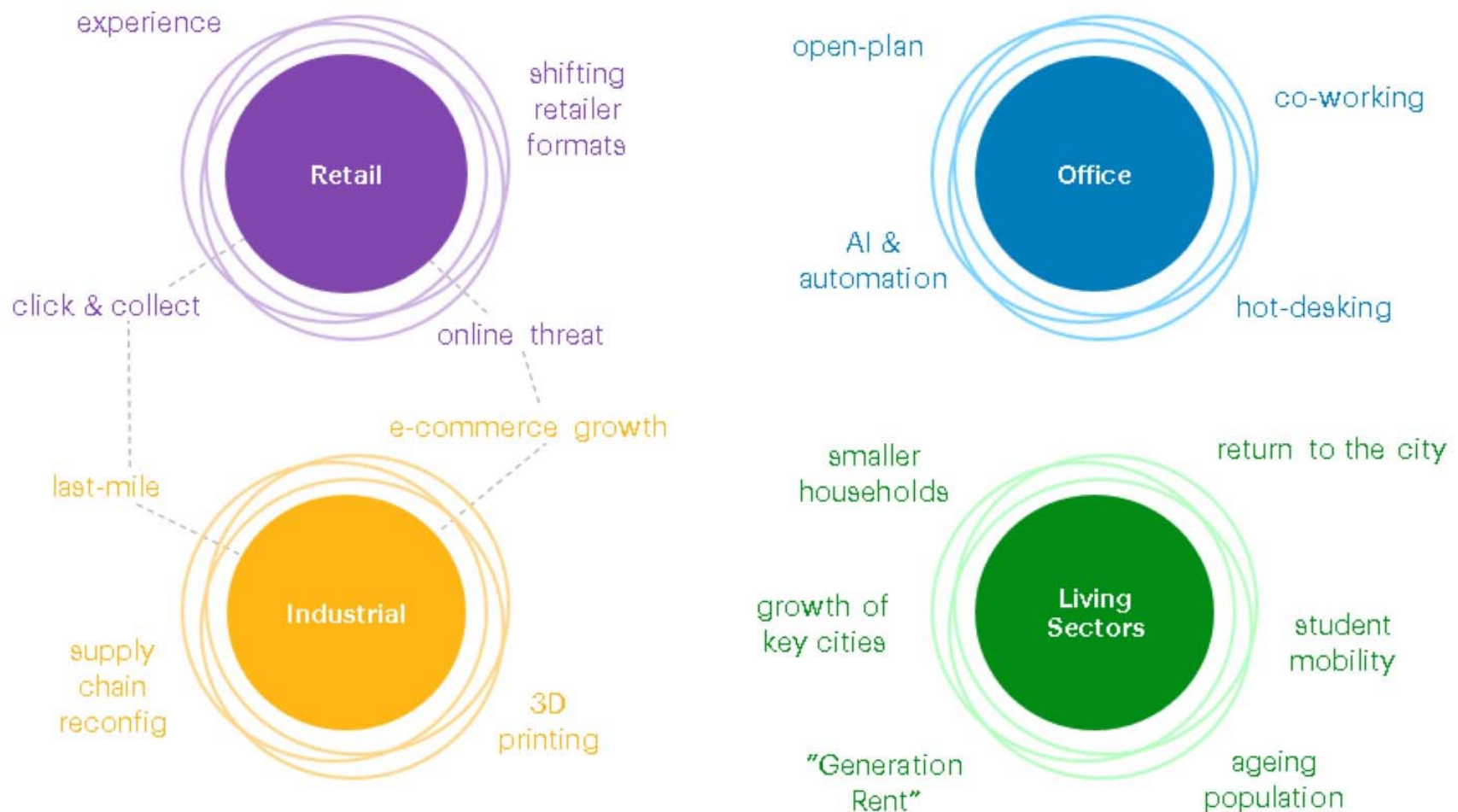
Major Structural Shifts At Work, Affecting the Amount and Location of Office Demand

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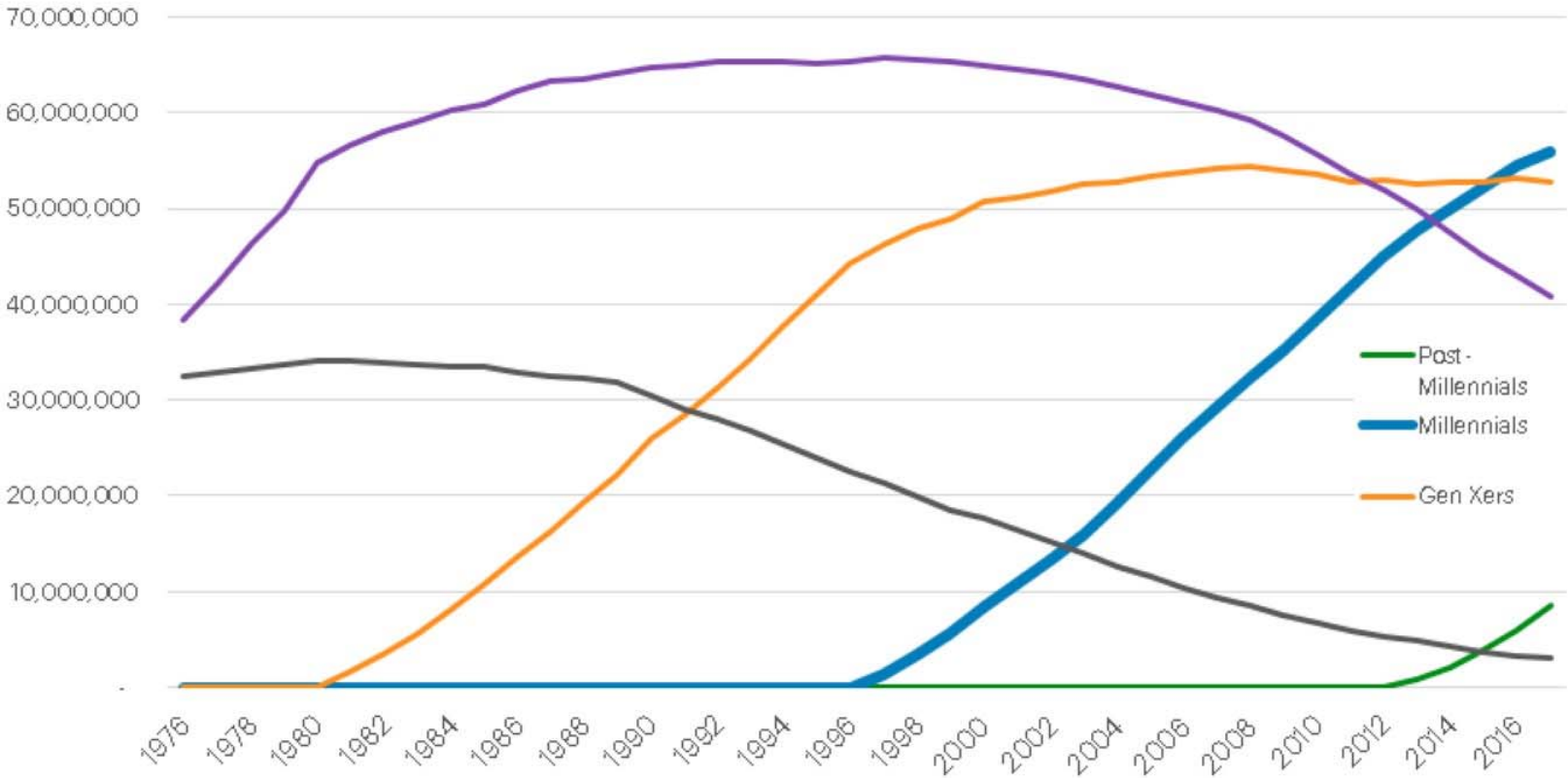
This Cycle Characterised by High Degree of Secular/Structural Change

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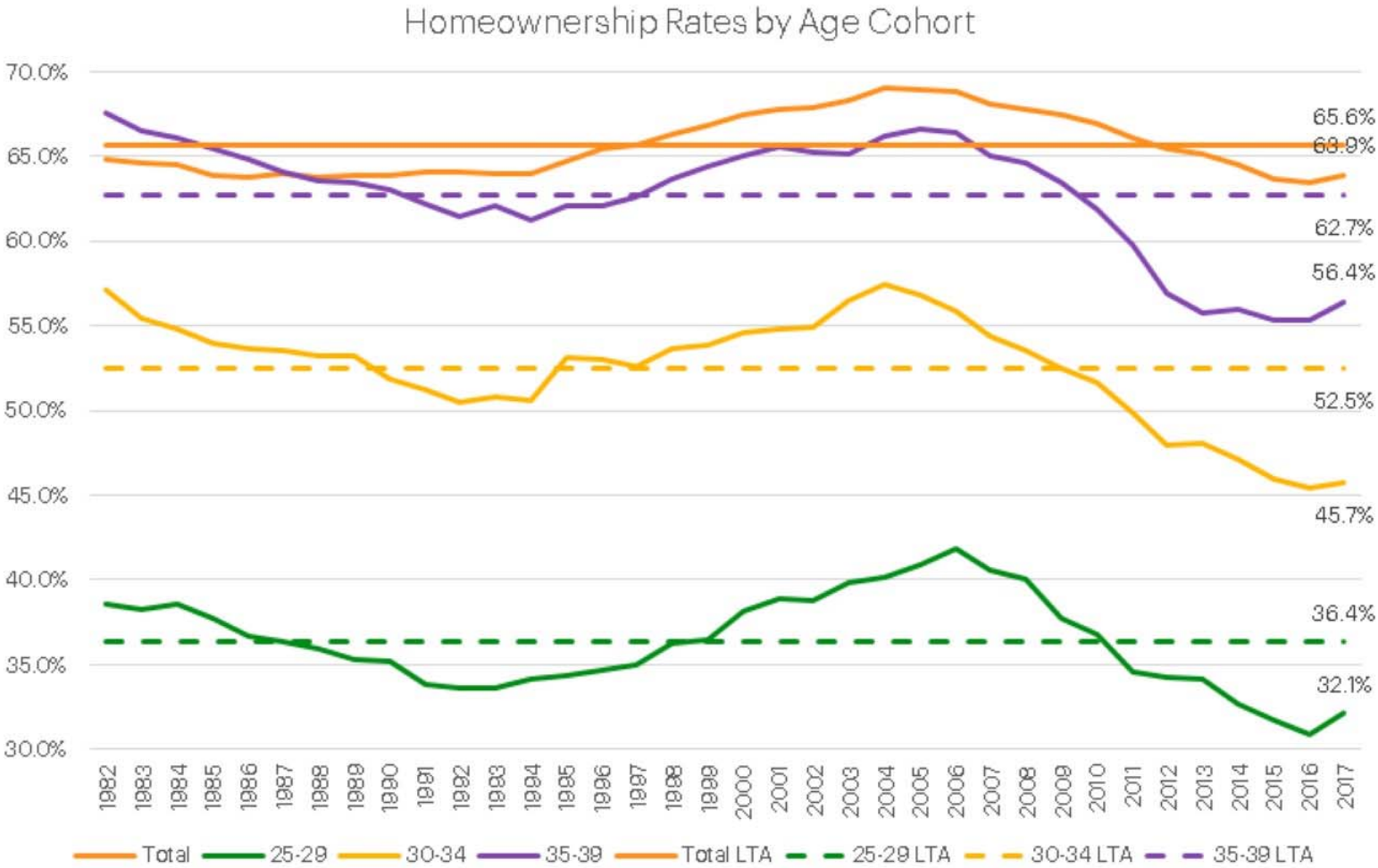
The Demographic Backdrop: Millennials Are the Largest Cohort in the Workforce

NUMBER OF WORKERS BY GENERATION IN US LABOR FORCE



Source: Pew Research Center; Heitman Research

Where Will Millennials Want to Live?



Source: U.S. Census Bureau; Heitman Research

Where Will Millennials Want to Work? Not Here

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CBDs Have the Edge, But Not the Only Option

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The Rise of Dense, Suburban, Mixed-Use Districts HEITMAN

But lively, walkable mixed-use districts are thriving



Legacy West - Plano, Texas

Oak Park, Illinois



Avalon - Alpharetta, Georgia



Tysons Corner, VA



What's Inside the Office is Changing As Well

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Activity-based design

Co-working space



Amped up amenities

What Will Become of Office Parks?

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Some Things Remain The Same, Though Delivered A Little Differently

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