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Top ten issues affecting real estate

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The Counselors of Real Estate (CRE) have issued the results of its annual analysis of the top ten issues impacting real estate. This ongoing effort to identify major issues has been well received by real estate professionals and can be seen in its entirety by accessing www.cre.org.

Demographic shifts are a major issue. The two key groups involved are the large numbers of retiring Baby Boomers (born 1946-1964) and the next large population wave - the Millennials (born 1980-2000.) These groups will have the greatest impact on real estate through the lifestyles they choose in coming years. In particular, this trend will have an impact on housing in all its forms: for seniors, the homes in which they choose to age in place, downsized homes, senior communities or assisted living. For Millennials, the decision to buy or postpone buying and location most often being driven by amenities such as walkable communities. The real estate and service sectors targeting each group are adapting as well - medical facilities, retail, office and entertainment venues to name a few. Overall, demographic shifts will drive decisions across virtually all real estate sectors this year and in the foreseeable future.

The following have also been identified as issues to be carefully watched over the next year.

- * Excess capital supply: Funds continue to flow from outside the U.S. to purchase U.S. real estate. Supply driven by economies that have high savings rates, a shortage of mature financial markets and few safe assets.
- * Rising interest rates: The general view is that historically low interest rates will continue for a while longer. However, savvy investors and homebuyers alike are preparing for rising rates which, when it happens, will devalue future cash flows and thereby devalue assets.
- * Global instability and currency devaluation: Although the U.S. dollar remains strong, the global economy is being affected by currency devaluation in many other countries.
- * Urbanization: Urban population growth is a global phenomenon. An increasing desire to reside in "live - work - play" and "walkable communities" is not limited to young professionals; older generations are also drawn to such locations, which affect housing choices for all age groups.
- * Energy: Oil price drops this year due to increases in non-U.S. oil production have negatively impacted large and small US producers. Workforce reductions and the associated decrease in residents' buying power impacts the entire community.
- * The gap between rich and poor: Due to income inequality widening worldwide, this issue will definitely impact real estate. On the commercial side, it drives new opportunities to serve diverse markets with discounted retail offerings, while at the same time, continuing the rise in luxury retailers.
- * Infrastructure: The condition and development of U.S. infrastructure lags behind that of a number of other countries. Communities and cities do not have the available capital to invest in infrastructure. The situation is further complicated by citizens unwilling to live in locations where the

distance is too great to travel to work or travel to shopping on crowded roads in disrepair.

* Real estate technology and crowd funding: Real estate is one of the most dynamic sectors for technology innovation, positioning the real estate industry for disruption. Technology has also dramatically changed the way real estate professionals do business.

* The changing retail model: The retail sector faces continued challenges. Merchandise offerings are subject to the preferences of demographic groups that are in transition. There will continue to be pressure on existing properties to keep occupancy strong and adapt logistics.

These are just the highlights of an in-depth analysis by CRE members, which resulted in identifying these top ten trends. These are all areas where real estate professionals are affected in different ways. This is a great checklist as developments are proposed and strategies developed for operating companies.

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