

Urban Land Institute and PwC: Real Estate Industry Poised for a “Reset”



As we move through 2024 after a challenging year, the big question for many in the commercial real estate (CRE) industry is: What can we expect from 2024?

According to the latest Urban Land Institute (ULI)/PwC “Emerging Trends in Real Estate” report (released in October 2023), the answer is that we should be getting ready for a “Great Reset.”

More specifically, ULI notes that the industry must “form new ‘norms’” and adds that real estate markets can no longer rely on past benchmarks to determine future market performance.

From Uncertainty to a “New Era”

“Emerging Trends” consolidates data and insights collected from over 2,000 real estate industry experts to provide predictions for where the industry might be heading.

In last year’s report, the overarching theme was one of cautious optimism, with the caveat that slowed capital flows, uncertainty in office, and the “normalization” of industrial and other high-performing sectors presented a challenging mix. Many of those factors are still expected to carry forward through 2024.

What’s different in the latest report, however, is the assertion that some of the trends we’ve been seeing are here to stay. Beyond a shift to “new norms,” the CRE industry may need to prepare for “a new era of thinking, building and operating.”

As that statement implies, there’s a lot to unpack from the predictions for 2024. Here are some of the top deductions to keep in mind as we move through the new year.

Hybrid is Still an Option

Despite the massive back and forth about a full return to the office that we’ve seen in the last few years, ULI notes that: “Virtually every Emerging Trends interviewee said some form of the phrase “hybrid has clearly won.”

The data also shows that the work-from-home trend has resulted in companies committing to 10-20% less space and shorter leases than they did before the pandemic.

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While that may sound like an ongoing alarm bell for the sector, the report adds: “Despite the negative outlook, most office buildings are performing well, with the occupancy rate either staying the same or even improved since 2020.”

Rocketing Retail

An asset type that’s undergone a strong trajectory shift in recent years is retail. ULI states that tenant demand has shot up over the last 18 months, with a lot of that occupation occurring in community or neighborhood retail centers. In fact, vacancy rates for neighborhood centers are down to just 6%, marking a 20-year low for the asset type.

The retail sector overall has been bolstered by unexpectedly strong consumer spending, but it’s worth noting that not all retail assets have benefited equally, and some, such as Class B and C malls, continue to face challenges.

Portfolio Shifts

Another interesting finding is that there’s a shift occurring in how CRE portfolios are structured. As one respondent quoted in the report notes: “One thing that has evolved during this last period is how we think about the composition of a core portfolio and the definition of core.”

Part of that pivot has been a move away from traditionally strong asset classes (particularly in the mall and office sectors) and towards more niche subsectors. Assets like data centers and medical offices, for example, have become an increasingly popular pick, along with cold storage, self-storage, and student housing.

Southern Migration

Growth in Sun Belt markets is also anticipated to continue in 2024, despite signs of slowing in specific sectors. ULI states that out of the top 20 markets showing strong “overall prospects,” 15 are located within the Sun Belt.

Metros like Nashville, Phoenix, and Fort Worth/Dallas are still on the top of that list, continuing the trend we’ve seen in recent years, and proving that the region has enduring appeal for investors and workers alike.

The report does add a note of caution, however, in that “escalating risks from climate change could affect the trend of positive investment we’ve seen in this region.”

That’s a concern that’s also noted to be top of mind for real estate fund managers, as they turn their gaze towards greener portfolios and ways to decarbonize assets and adapt them to climate change.

The Year Ahead

Naturally, here at NAI we’ll be keeping a sharp eye on trends and will continue to bring you our latest predictions for what to expect from CRE markets in 2024.