

# Looking Ahead: **Trends That Will Affect our Communities**

**Illinois Financial Forecast Forum, January 2023**

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Globalization giving way to  
**Deglobalization**



**Climate change**  
will affect value



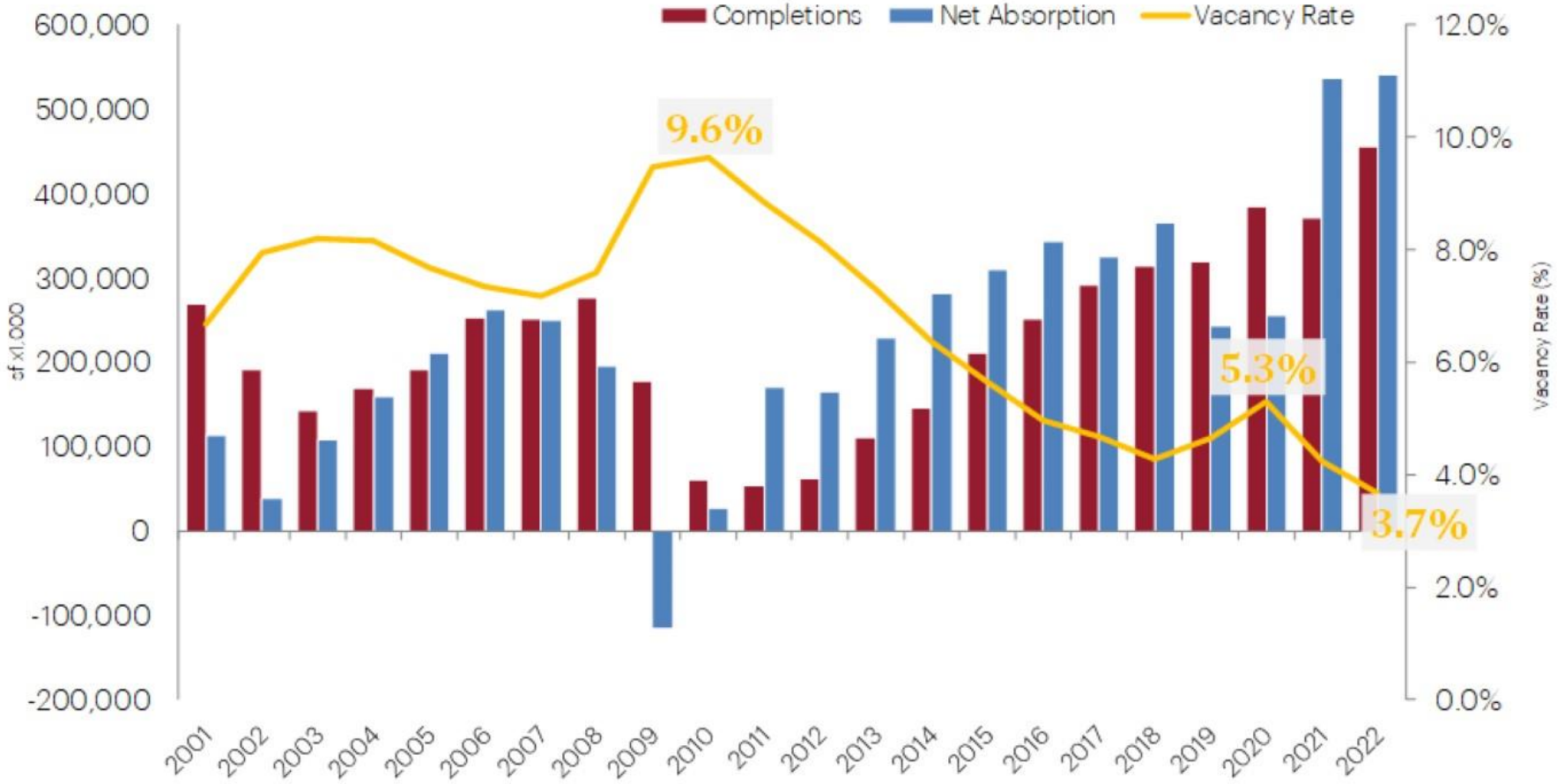
**Migration patterns shifting** as  
two giant generations age



Disruption driving  
**portfolio rotation**

# Industrial Market Poised to Benefit from Reshoring

**INDUSTRIAL COMPLETIONS, NET ABSORPTION, AND VACANCY**  
**US 2001-2022 (YEARS ENDING Q3)**

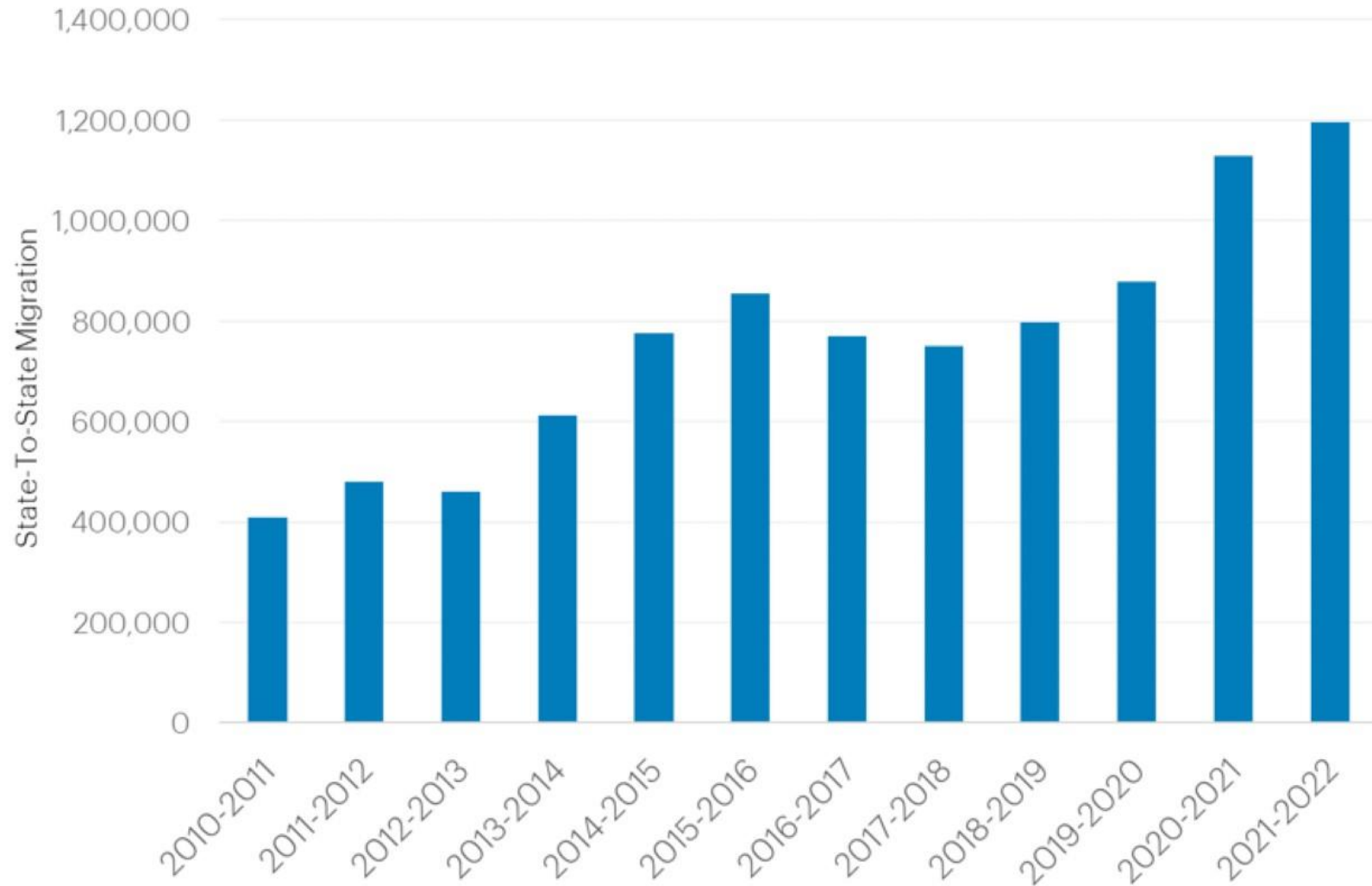


Source: CoStar; Heitman Research

# COVID Accelerated Migration For Good or For Now?

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**STATE-TO-STATE MIGRATION BY YEAR  
UNITED STATES TOTAL PERSONS 2010 - 2022**



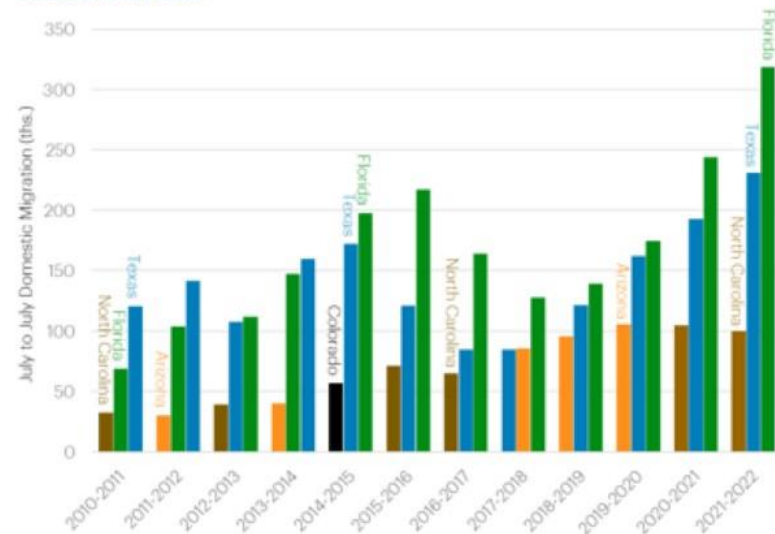
## Florida and Texas have led domestic in-migration for last 4 years

- Florida experienced a 129% spike in domestic migration in last 3 years and set a record with net 319k migrants in 2021-2022 (1.7% of total population)
- North Carolina and Arizona have traded places in #3 spot 10 of the last 12 years

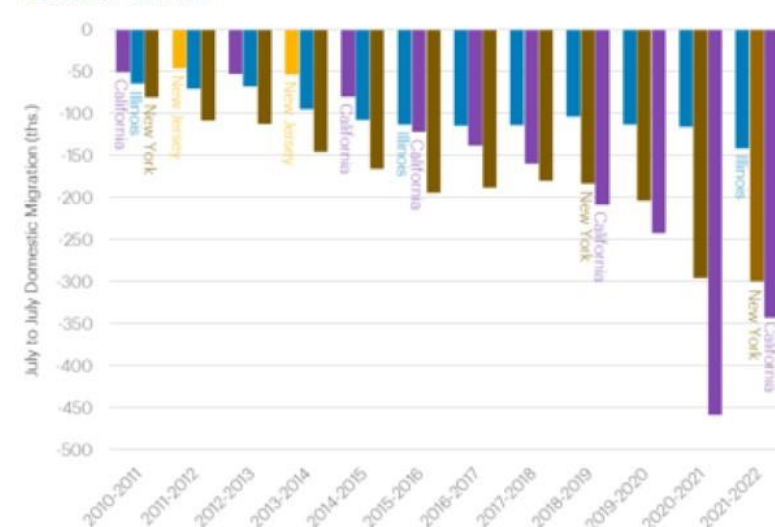
## California and New York have seen the most domestic out-migration over the since 2015

- California has led net out-migration for last 4 years but saw an improvement in 2021-2022 with 115k less net out-migration
- Out-migration has been negative in New York, California and Illinois each of last 12 years; NY has lost 2.16 million residents to net out-migration followed by CA (1.95 million) and IL (1.22 million)

TOP THREE STATES - DOMESTIC MIGRATION  
US JULY 2010 - JULY 2022

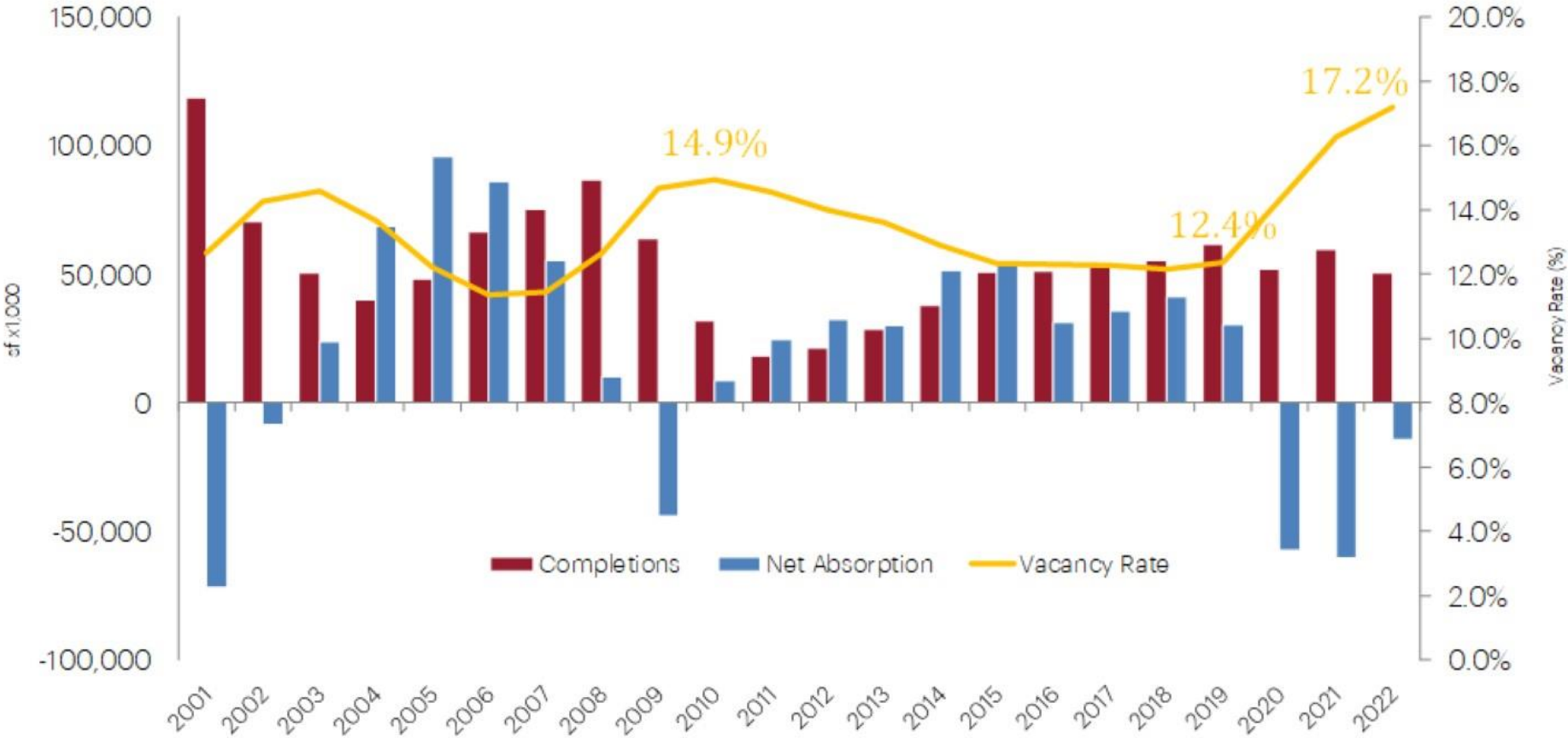


BOTTOM THREE STATES - DOMESTIC MIGRATION  
US JULY 2010 - JULY 2022



# Office at Highest Vacancy Rate Since the 90s

**OFFICE COMPLETIONS, NET ABSORPTION, AND VACANCY**  
**US 2001-2022 (YEARS ENDING Q4)**



Source: CoStar, Heitman Research

# In a Bifurcated Market, Trophy Office Stands Out

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Several solid reasons for a continued flight to quality:

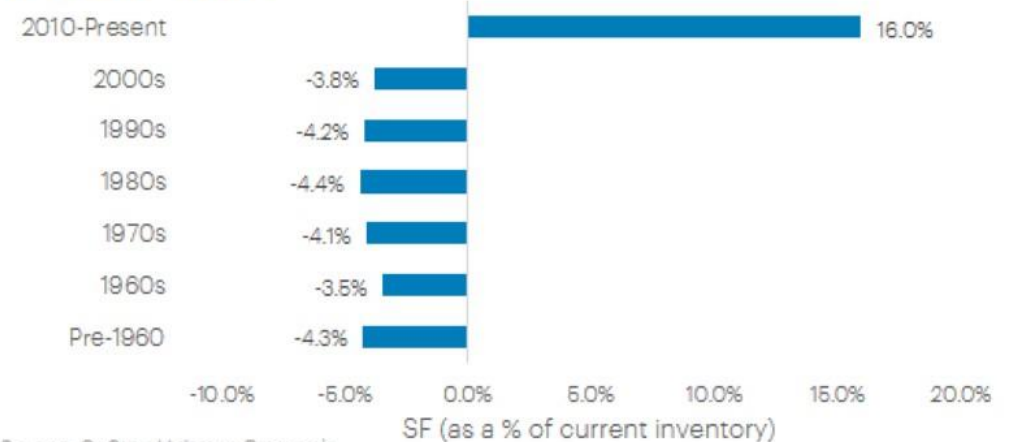
Tenants can get quality space for a similar price given that efficiencies allow for downsizing

For tenants that require in-person work, high-quality office serves as a workplace benefit and a lure back in

Flexible floorplates allow for a variety of workstations that can accommodate post-COVID design better than older vintage

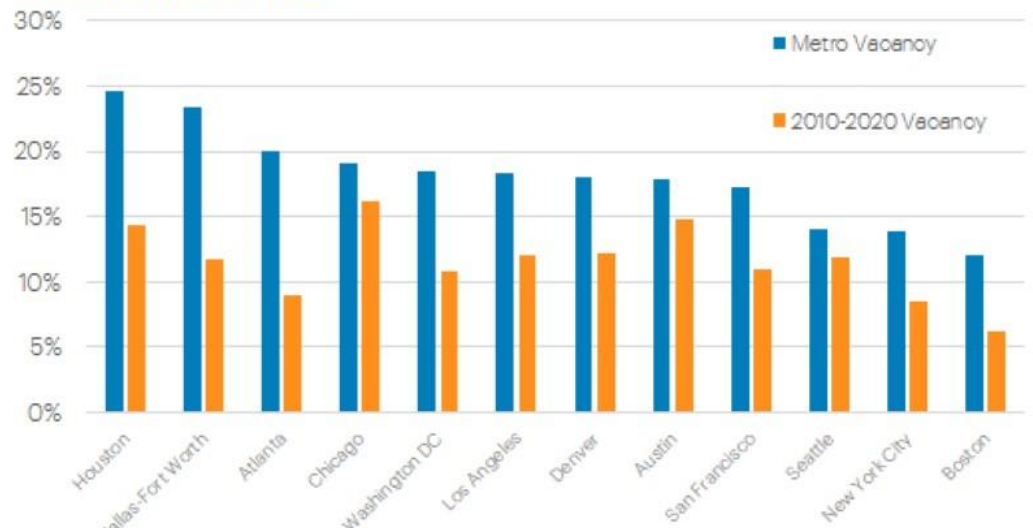
Modern systems (e.g. HVAC) can allow productivity gains from office work to be enhanced vs older vintage

**NET ABSORPTION (% OF EXISTING SF) BY BUILDING VINTAGE  
US Q2 2020 - Q2 2022**



Source: CoStar, Heitman Research

**VACANCY RATE - METRO AVERAGE VS 2010-2020 VINTAGE  
SELECT METROS Q2 2022**



Source: CoStar, Heitman Research

# This Doesn't Work Anymore

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# What's Highest and Best Use is Changing

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Existing office space exceeds current and future demand

Office tends to be in high-demographic areas

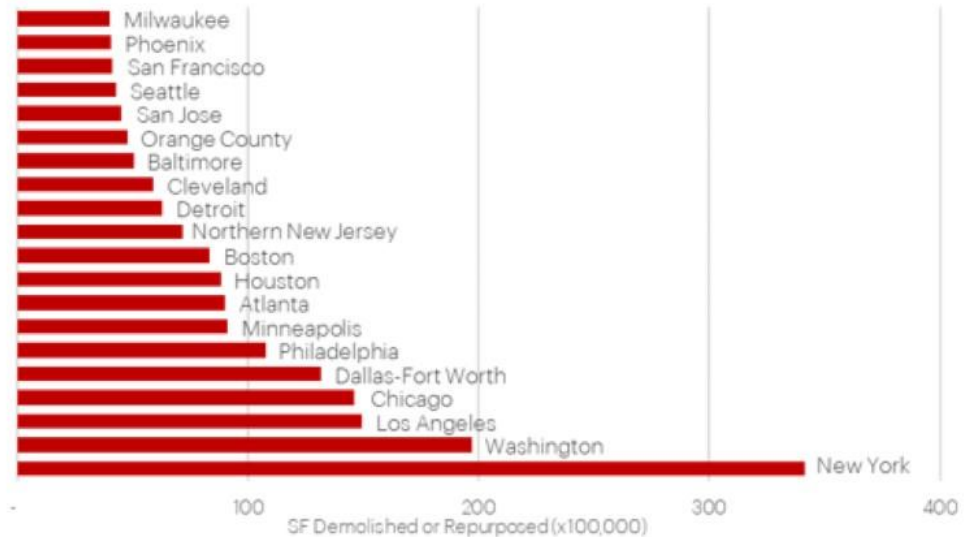
Pivot from office towards residential investment creates opportunity

Important features: limited tenancy and rollover, floor plate shape/depth

Public policy moving quickly to facilitate adaptive reuse

- WASHINGTON, DC
- CHICAGO
- NEW YORK
- DENVER
- CALGARY

OFFICE DEMOLISHED OR REPURPOSED  
2012 - Q1 2022 TOP 20 MARKETS



Source: CoStar, Heitman Research

23%

of carbon admitted into the atmosphere comes from steel, concrete and aluminum

11%

of global carbon emissions come from the construction industry

80%

high-end estimate of emissions reduction from adaptive reuse

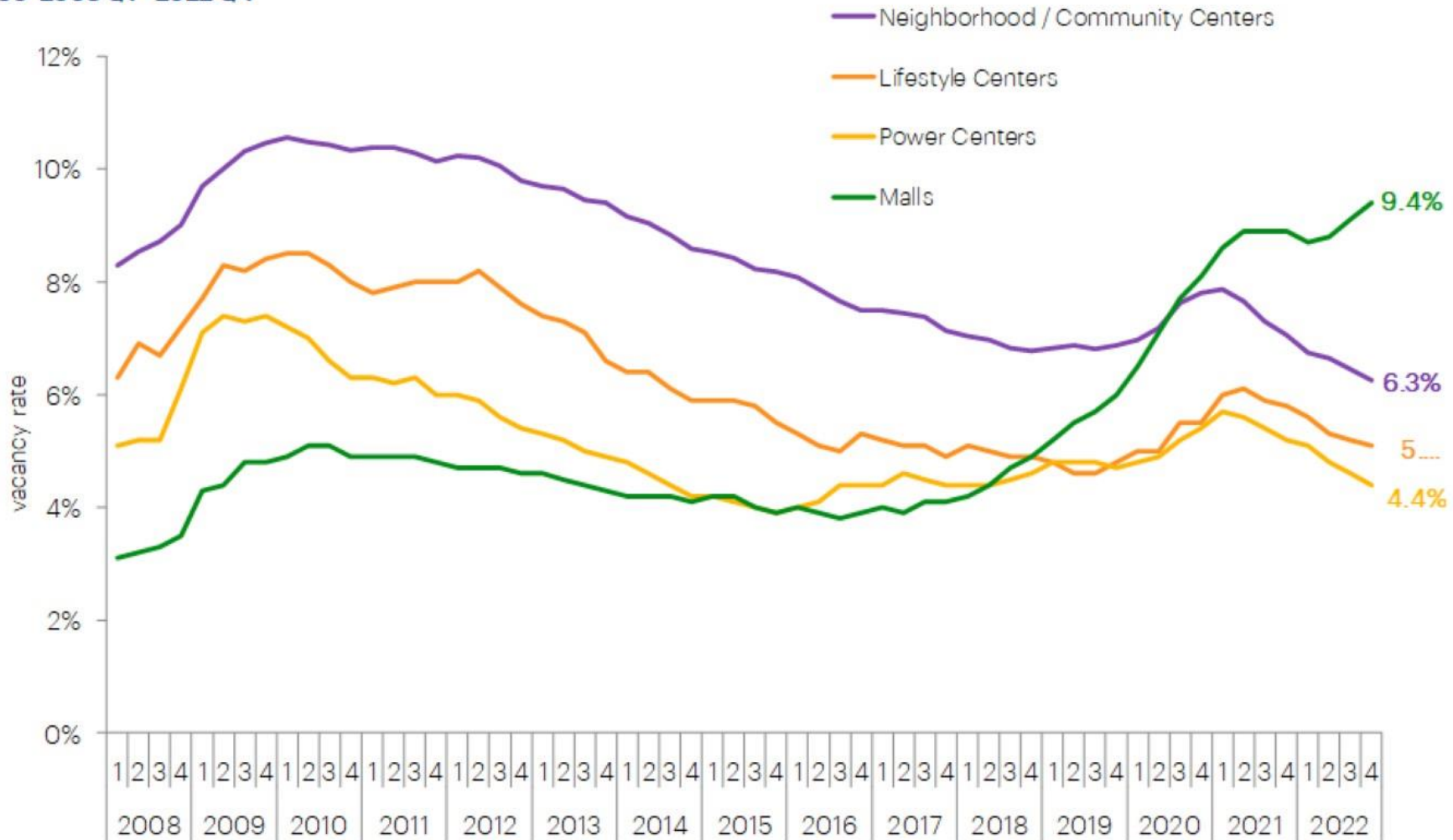
90%

amount of building materials that can be saved through deconstruction

# After Time in Wilderness, Retail Rebounding

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**RETAIL VACANCY BY FORMAT**  
US 2008 Q1 - 2022 Q4



Source: CoStar; Heitman Research

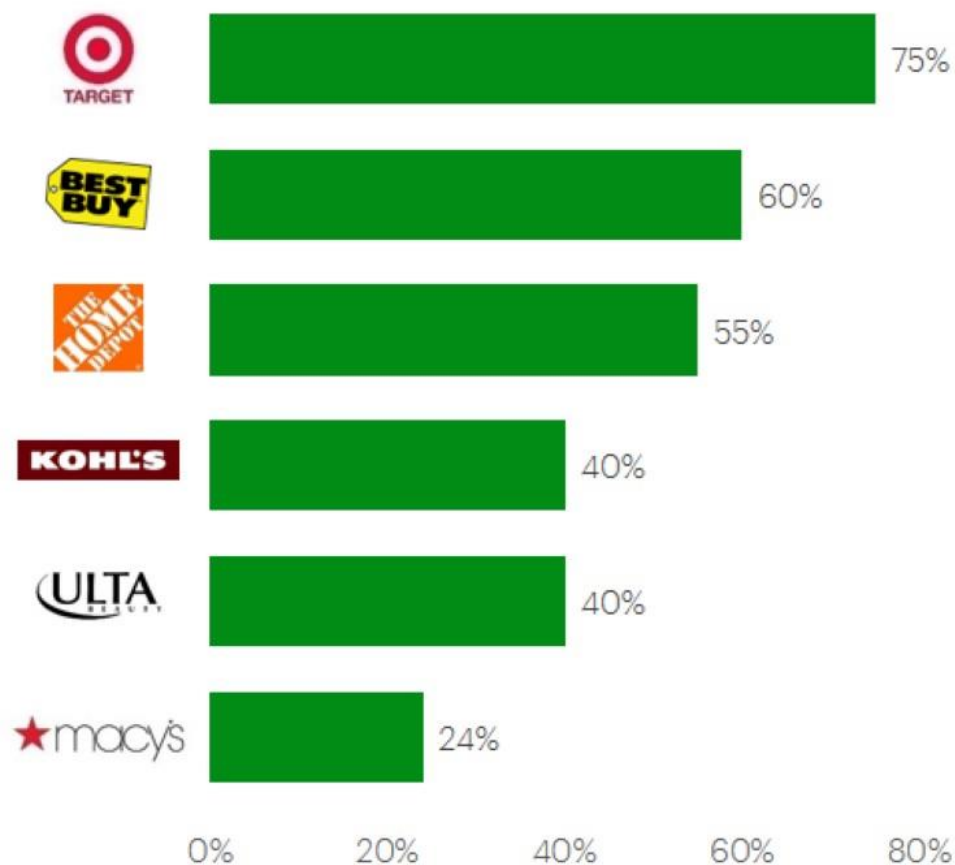
# Online Sales Share Picked Up Again in Q2 2022, Stores Fulfilling a Growing Share of Online Orders

**E-COMMERCE SHARE OF RELEVANT RETAIL SALES**  
US Q1 2017 - Q3 2022



Excludes autos, gas, and food service  
Source: US Census Bureau; Heitman Research

**PERCENT OF ONLINE SALES FULFILLED BY STORES**



# 2022 Retailer Openings & Closings Favor Open-Air

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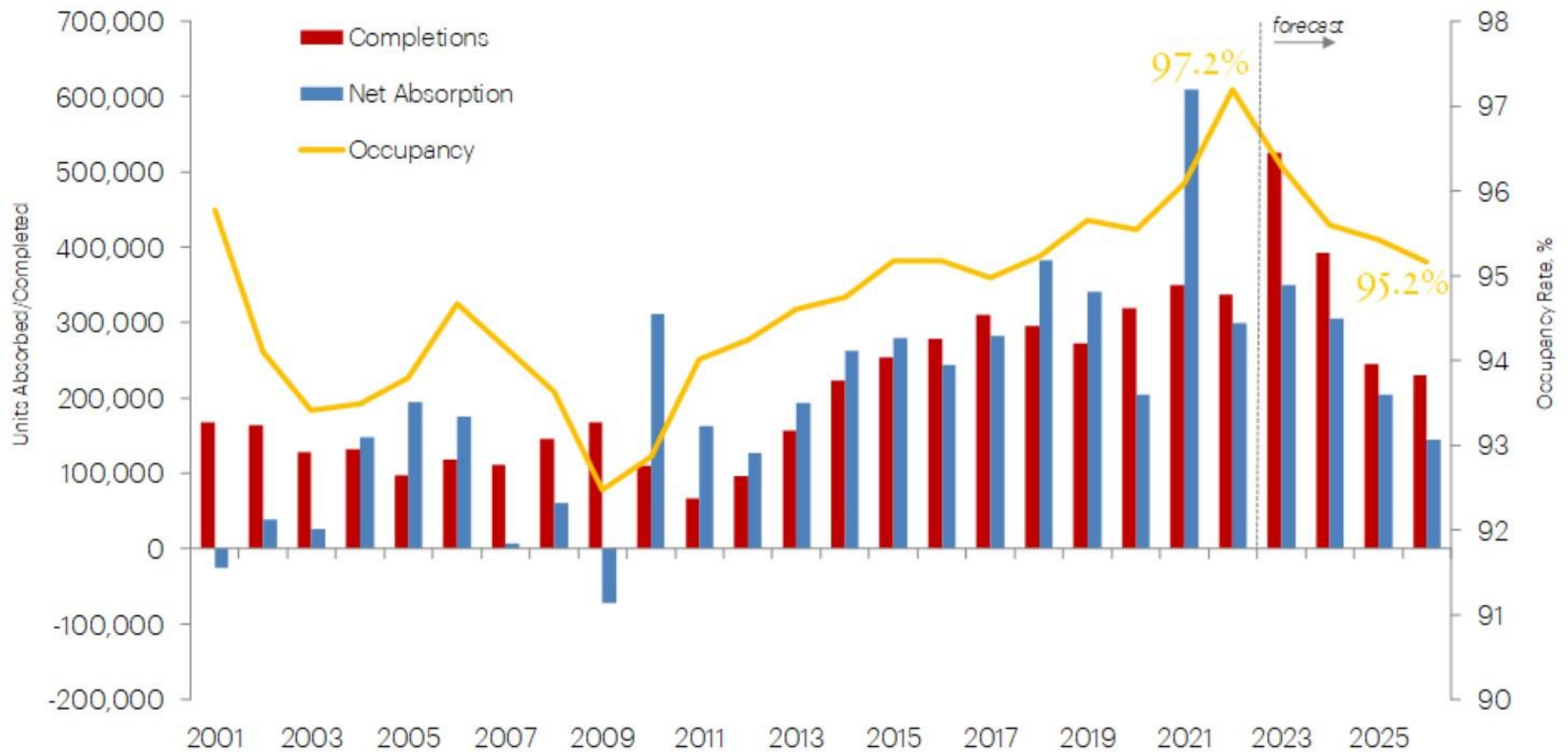


Last update: March 2022

# Apartments Start a Downturn in Great Shape

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**APARTMENT COMPLETIONS, NET ABSORPTION AND OCCUPANCY  
US 2001-2027F (YEARS ENDED Q3)**



Source: [RealPage](#); Heitman Research

# But Apartments Aren't For Everybody

Single-family rentals emerged as an institutional sector in the US in the aftermath of the Global Financial Crisis

The sector's characteristics fit well with demographic trends, including the maturation of the Millennial generation into its child-rearing stage

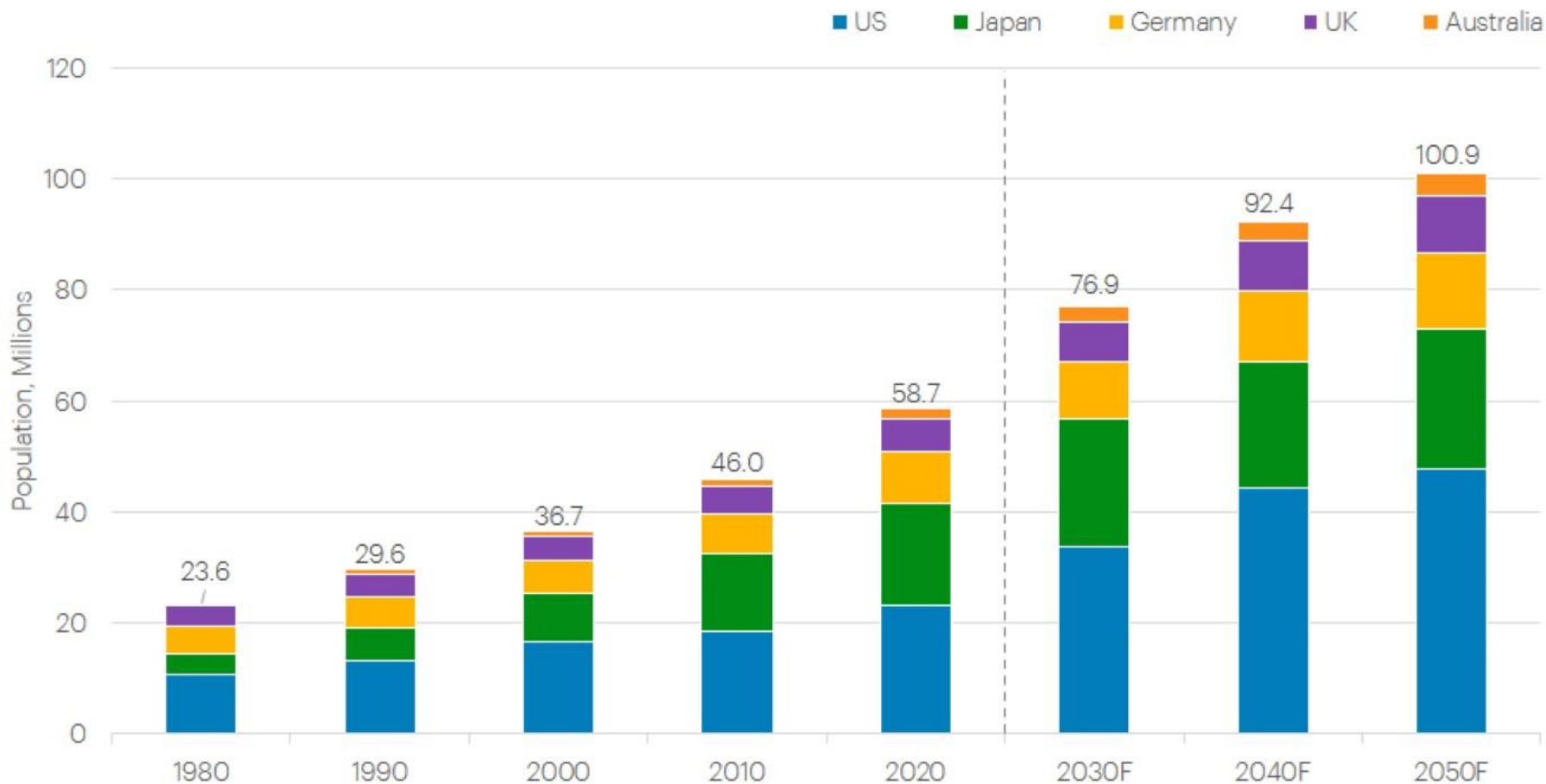
- Though many Millennials will seek to buy homes, homeownership remains out of reach for many households
- Single-family rentals provide an alternative



# The Silver Tsunami Underpins Future Tenant Demand

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POPULATION OVER 75 YEARS OF AGE, SELECT COUNTRIES  
1980 - 2050 FORECAST

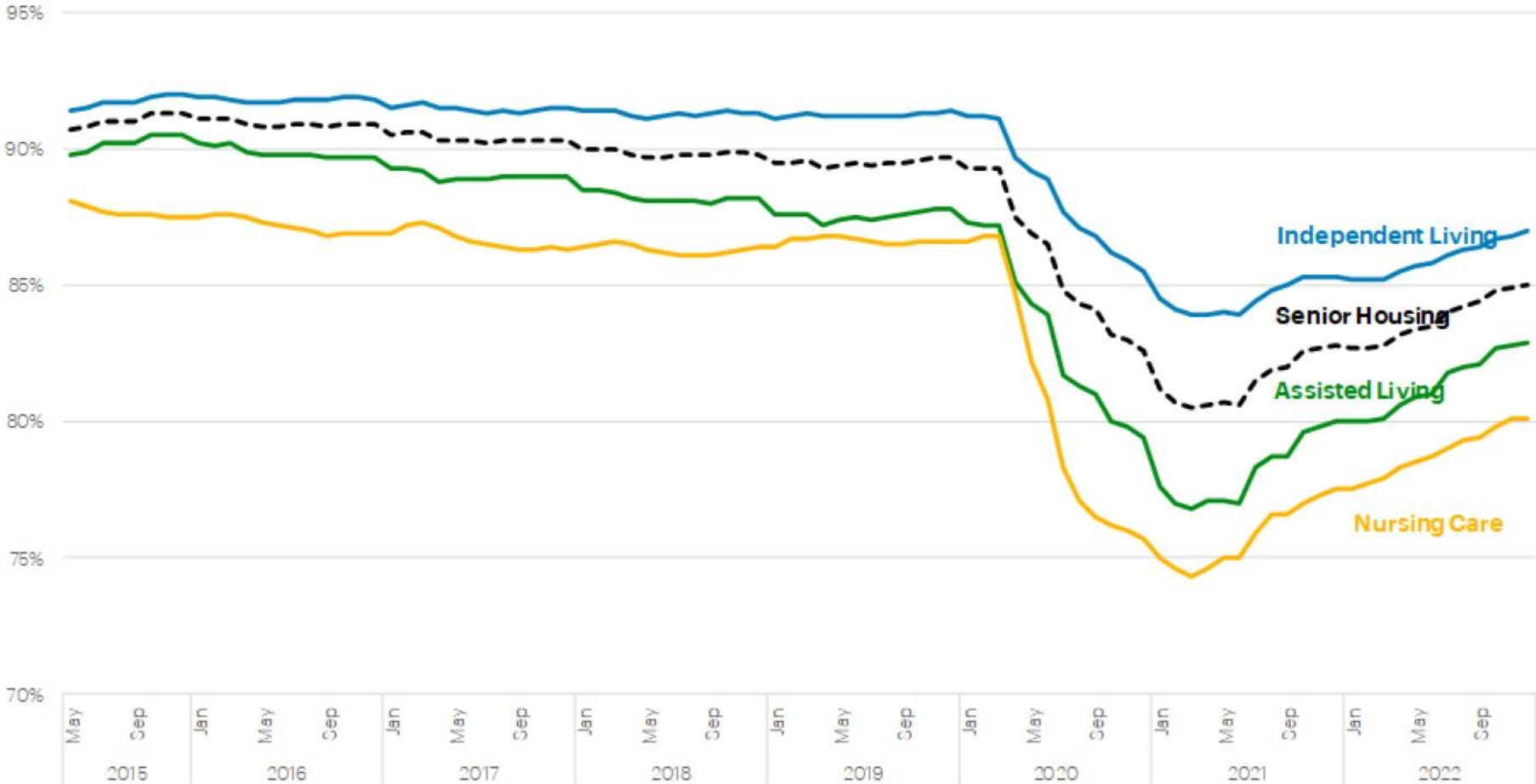


Sources: UN Population Projections via Oxford Economics; Heitman Research



# Senior Housing Has Turned a Corner

**SENIOR HOUSING STABILIZED OCCUPANCY BY CARE SEGMENT ALL MARKETS  
MAY 2015 - DEC 22**

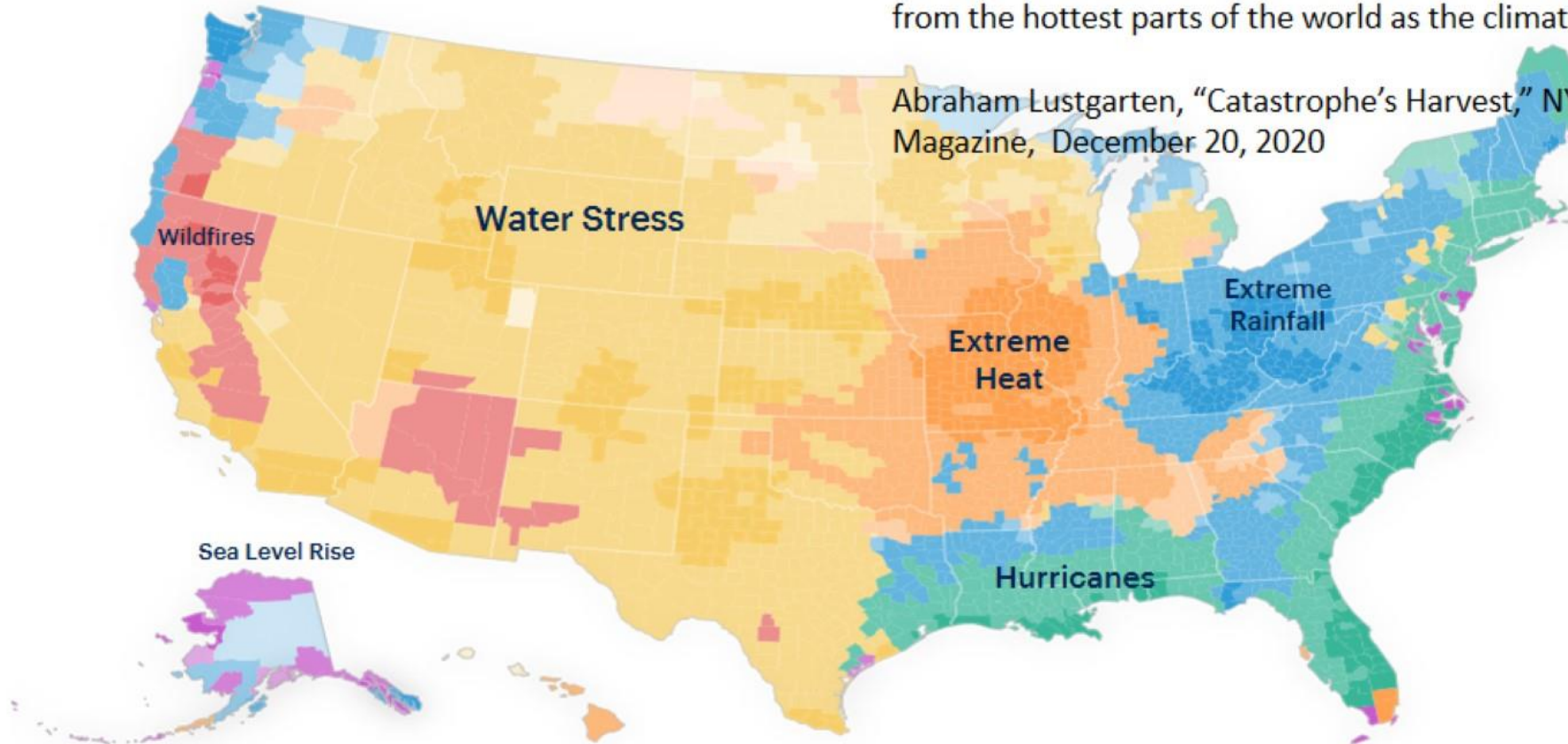


Source: NIC, Heitman Research

## US CLIMATE RISK FORECAST: PRESENT TO 2040

“For a few nations, climate change will present an unparalleled opportunity, as the planet’s coldest regions become more temperate. There is plenty of reason to think that those places will also receive an extraordinary influx of people displaced from the hottest parts of the world as the climate warms.”

Abraham Lustgarten, “Catastrophe’s Harvest,” NY Times Magazine, December 20, 2020



Source: Four Twenty Seven, as cited in <https://www.nytimes.com/interactive/2020/09/18/opinion/wildfire-hurricane-climate.html>.

# Climate Change Starting to Upend Historical Trends

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## Dangers Include Event Risk, Transition Risk and Long-Term Existential Threats



**PHYSICAL DAMAGE**



**INSURANCE PREMIUM REPRICING/ AVAILABILITY**



**TAX INCREASES TO FUND INFRASTRUCTURE**



**INVESTMENT LIQUIDITY REDUCED/ ASSETS REPRICED**



**ECONOMIC & DEMOGRAPHIC DAMAGE AS MIGRATION PATTERNS SHIFT**



**ABANDONMENT OF RISKIEST/LEAST-RESILIENT LOCATIONS**

## New Risks Emerging from Rapidly Escalating Regulations

**SEC's proposed climate risk disclosure rule**



<input checked="" type="checkbox"/> Weather risks such as extreme heat, flooding, hurricanes.	<input checked="" type="checkbox"/> Climate change's potential impact to business operations.	<input checked="" type="checkbox"/> Scope 1, 2 and 3 greenhouse gas emissions.
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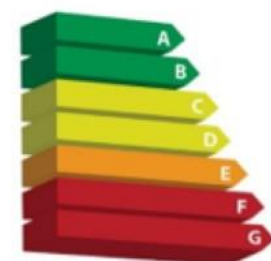


**NYC's Groundbreaking Emissions Law**

Local Law 97 (LL97) sets carbon emissions caps on buildings over 25,000 sq. ft.

[LEARN MORE >>](#)

## UK/EU Energy Performance Certificates



CHANGE

Change



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