The most valuable use of data is when it’s in the hands of someone who knows the implications of its use.

by Steve Murray, senior advisor

Nearly 40 years ago, I read an article about the emerging field of information science and services. The author (whose name escapes at the moment) pointed out that while data is valuable, it becomes more valuable when it’s organized in a way to provide useful benchmarking or trends to the user. The most valuable use of data is when it’s in the hands of someone who knows the implications of its use, at which point it becomes knowledge.

The writer was positing that in the coming era, the world would become swamped with data – even organized data would be widely available. To truly take advantage of that, it had to be in the hands of a user who understood its importance to whatever task lay in front of them.
HOW THAT RELATES TO REAL ESTATE

In so many facets of our industry, these prophecies are truer today than ever before. Agents have always had access to customer relationship managers (CRMs) containing client and customer data. Now, there are a growing number of tools that have taken that data and combined it with other data to create information about which of those clients are more likely to sell or buy in the future.

It’s only when that information is in the hands of someone who knows how to make the best use of the data that the highest value is extracted. The same is true for data about agent relocation activities, from one brokerage to another, where large amounts of data has been organized into useful information so as to know with greater certainty which agents may see one brokerage company as the ideal new firm with which to associate. The information that points to which agents are more likely to relocate their practice is now available, but it takes an interested, knowledgeable user to know how to put that information to good use.

Agents have always had access to customer relationship managers (CRMs) containing client and customer data. Now, there are a growing number of tools that have taken that data and combined it with other data to create information about which of those clients are more likely to sell or buy in the future.

It is also true for offerings like zavvie, which helps agents deliver real market comparables to owners and sellers to help them sort their options between iBuyers and alternatives. It does little good to have such a tool when the user doesn’t truly understand the knowledge that its features bring to a seller.

WHY CONSUMERS STILL USE AGENTS

And at its core, this continuum explains why, when housing consumers are inundated with information about the housing market, they still use agents to buy and sell their homes. They can get access to all the data and information they desire, but without someone who understands how to best apply this to the decision making on the purchase or sale of a home, the raw numbers are not that valuable. Combine all that information with an experienced agent, and now the consumer gains access to knowledge, the highest form of value in a data-driven world.

Steve Murray is a senior advisor to RealTrends and a partner in Colorado-based RTC Consulting.

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PREORDER COMING SOON!
Many in our industry are amazed at how much money has been invested into the residential real estate brokerage space over the past few years. To give you some perspective, let me offer these thoughts.

This high level of interest is not all that new. For those who don’t recall, 40 years ago, Merrill Lynch and Sears began investing in brokerages. Then, Metropolitan Life and Prudential invested in the real estate brokerage business. In fact, dozens of savings and loan companies and credit unions have invested in brokerage firms. The interest by most was the potential cross sale of housing-related financial services, such as mortgage, title insurance, escrow services and property casualty insurance. So, the interest in brokerage by outsiders is not all that new.

**SOME REASONS FOR INTEREST BY OUTSIDERS**

Now, let’s get into the reasons for the interest:

- The residential real estate industry makes a lot of money — $85.9 billion in 2020 gross revenues.
- There is strong demand for housing with limited supply of inventory, which is likely to create a strong market for many years to come and a strong desire in many Americans to be homeowners.
- A fragmented market where the five largest national firms have less than 35% of the market, and the 500 largest brokerage firms have only a 38.5% market share.
- The strengthening of brokerage firms’ ability to cross-market housing-related financial services, and a predictable regulatory environment in which to do so.
- The belief that various technologies will break Americans’ habit of choosing an agent based on relationship, and change it to one based on features, benefits and cost savings, and deliver higher gross margins to the owner of the technology platform.
- A consumer market in which the combination of commissions, financial services and related homeownership products and services has created a consumer market that’s in the trillions of dollars of annual revenues and valuation.

These factors explain the most recent fascination with residential brokerage. These key points are not going to go away soon—if ever.

Steve Murray is a senior advisor to RealTrends and a partner in Colorado-based RTC Consulting.
When will things return to normal after the pandemic? This often-asked question assumes our experience was some sort of cyclical event such as daylight automatically following darkness. But what if there were structural changes caused by the pandemic? What if these changes are the new abnormal? Here are three new skills required to thrive:

1. **Virtual viewing.** Due to the lockdowns, buyers became very comfortable viewing properties online—even making offers without physically seeing the property. Here are the facts according to the National Association of Realtors.

   - **63%** of buyers last year made offers without ever physically viewing the home.
   - Buyers viewed an average of **nine** homes before writing a contract:
     - **Five** of these were virtual viewings.
     - **Four** of them were physical viewings.
     - How a home shows virtually often determines if it “makes the finals” and is viewed physically.

   In one study, homes where real estate professionals brought their A Game were viewed online for 90 seconds on average, whereas homes that did not have staging, professional photography, video, and floor plans were viewed for only four seconds.

   Your next listing is embedded in your current listing. Because of virtual viewing, future sellers are now more often picking their listing associate based on how the associate’s listings show up online. Who is bringing their A Game? Sellers want to list with those Realtors.

2. **Bring your “A Game.”** Due to virtual viewing and contracts, listings need to shine online. Homes that received the most views and contracts were staged and had professional photography, video and virtual floor plans available with the listing. These homes received more views, more contracts, sold faster and had fewer cancellations.

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   3. **The three-step listing launch.** The obsession with “speed to market” is a trap. Putting a home on the market before it is properly prepared (staged) and the marketing materials (A Game) are ready results in a lower sales price and hurts the seller. The best associates in our industry follow the three-step listing launch.

   - **Step 1: Package.** Package the house well (staging) and prepare your marketing materials (professional photography, video, floor plans, etc.). Take the time to get the home as move-in ready as possible.
   - **Step 2: Price.** Develop your pricing strategy. This is based on the condition of the home, as well as current market conditions.
   - **Step 3: Promote.** Launch your marketing program – MLS, online, open houses, social media, outreach to potential buyers, neighbors and Realtors, etc.

   Follow your “marketing syntax.” Syntax is the order and sequence of words. For example, “The dog bit Johnny,” and, “Johnny bit the dog” are the same words. But when you change their order, the meaning changes—and therefore so do the results. The same is true with your marketing syntax. Follow the “package, price, promote” order, and you will get the results you are looking for. Unfortunately, some associates do the right things but do them in the wrong order. The most common mistake is promoting (Step 3) before they have packaged (Step 1).

   Develop your three new skills and you will thrive in the new abnormal!
HOMEOWNERS GAINED $20,000 IN WEALTH IN 2020

by Shelby R. King, assistant editor

Soaring home values and unprecedented buyer demand meant property owners pocketed substantially last year.

Homeowners in 2020 gained more than $20,000 in wealth as home prices soared and buyer demand remained strong across the nation.

Home prices nationwide increased in February 2021 faster than in January, and continued to appreciate at higher-than-2020 average monthly rates, according to recent data released by Red Bell Real Estate, LLC, a subsidiary of Radian Group Inc. Home prices nationally rose from the end of January 2021 to the end of February 2021 at an annualized rate of 8.2%.

February 2020 was the last month before pandemic-related shutdowns were implemented nationally. One year past that transition, home prices have shown tremendous resiliency in aggregate. The Radian Home Price Index (HPI) rose 8.3% year-over-year between February 2020 and February 2021. In comparison, the year-over-year period from February 2019 through February 2020 recorded a 7.4% increase in home prices nationally.

NATIONWIDE DATA AND TRENDS
Nationally, the median estimated price for single-family and condominium homes rose to $272,186, representing a more than $20,800 increase over the $251,384 median estimate at the end of February 2020. This means that the average U.S. homeowner gained more than $20,000 in wealth last year due to strong home price appreciation, and home prices rose an annualized 9.3% over the last six months, according to the study. This change represents a strong increase over the prior six-month appreciation rate of just 6.9%.

Housing markets continue to be buoyed by ongoing imbalances between housing supply and demand. February 2021 continued a streak of records broken, both by setting the record for lowest number of active listings in any February, as well as for the highest number of sales in a February. Moreover, the absorption of inventory was brisk. The number of sales equaled to 27% of the number of active listings, suggesting a very strong demand for inventory.

REGIONAL DATA AND TRENDS
Similar to the national reporting, all U.S. regions reported positive price appreciation in residential markets in February 2021. The Mid-Atlantic and Northeast regions were particularly resilient in what are normally down months for housing activity. While appreciation rates in these markets were comparable to those recorded over the last four months, it is more common to see some slowing of appreciation during winter months in these areas. The Midwest did record the weakest regional appreciation rate, and was weaker than prior months. The Southwest and West were the top performing regions in February.

Home Prices Up 8.3% Nationally
February 2020 - February 2021

Annualized Home Value Increases
Feb. 2020 - July 2020 = 6.9%
July 2020 - Feb. 2021 = 9.3%
February 2020 was the last month before pandemic-related shutdowns were implemented nationally. One year past that transition, home prices have shown tremendous resiliency in aggregate. The Radian Home Price Index (HPI) rose 8.3% year-over-year between February 2020 and February 2021.

At the state level, home price appreciation was positive in all 50 states and in the District of Columbia; however, 20 of the 51 states reported slower monthly appreciation in February when compared to the prior month. Home price appreciation momentum differs by state.

METROPOLITAN DATA AND TRENDS
All of the 20 largest metro areas in the U.S. reported positive price appreciation in February as compared to January 2021. Three metros—New York, Philadelphia and Boston—recorded slower annualized price appreciation month over month. It is striking that 17 of the 20 largest metro areas report higher rates of appreciation than in the month prior to the onset of the COVID-19 pandemic in the U.S. in early 2020. These metros grew faster in February 2021 than they did in February of 2020. To put that in perspective, the start of 2020 was the strongest on record following the Great Recession, as housing markets were very strong prior to the pandemic and reflected the broad strength of housing market prices.

In just the first two months of 2021, the average median estimated price of homes in the 20 largest metros is greater by almost $5,000, which is a 78% increase over last year’s estimate of $2,800 for the same period.

The Radian HPI is calculated based on the estimated values of more than 70 million unique addresses each month, covering all single-family property types and geographies.

In just the first two months of 2021, the average median estimated price of homes in the 20 largest metros is greater by almost $5,000.
CFPB acts to head off 2021 foreclosure crisis

The CFPB proposes prohibiting servicers from filing for a judicial or non-judicial foreclosure process through the end of the year.

In response to findings that 2.1 million U.S. households are at risk of losing their housing as legal protections against foreclosures and evictions expire in 2021, the Consumer Financial Protection Bureau (CFPB) published a proposed mortgage servicing rule on April 5 as a first step to head off what Acting Director Dave Uejio has called “a national foreclosure and eviction crisis.”

THE LOOMING PROBLEM
The Coronavirus Aid, Relief, and Economic Security (CARES) Act—which was signed into law on March 27, 2020—provided up to 360 days of forbearance for homeowners with mortgages purchased or securitized by Fannie Mae or Freddie Mac, and loans made, insured or guaranteed by the FHA, VA or USDA if they requested forbearance from their servicer and attested to a financial hardship during the COVID-19 emergency.

The federal agencies announced in February 2021 that the moratorium deadlines would be extended until June 30. The Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), and U.S. Department of Agriculture (USDA) also announced in February that they were expanding forbearance for up to an additional six months, for a maximum of 18 months of forbearance for borrowers who requested additional forbearance by June 30, 2020.

“The Bureau is not aware of another time when this many mortgage borrowers were in forbearances of such long duration at once, or another time when as many mortgage borrowers were forecast to exit forbearance within a relatively short time frame,” the CFPB said in its proposed rule.

THE CFPB FINDINGS
The findings relied upon by the Bureau were published in a March 1 CFPB Report, which found that:

- As of January 2021, there were 2.7 million borrowers in active forbearance. Of the loans actively in forbearance, 903,000 are owned by the government-sponsored enterprises (GSEs), 1.26 million are insured by the FHA or VA and 678,000 are held in a portfolio or are privately securitized.

- As of January 2021, there were an estimated three million borrowers who were 30 days or more delinquent on their mortgage obligations. This number has doubled since the beginning of the pandemic—from 3% in March 2020 to 6% as of December 2020.
• Of these three million borrowers, 2.1 million were behind by at least three months on mortgage payments. The amount of homeowners who have fallen more than 90 days on their mortgage has increased by 250% since the beginning of the pandemic, and is now at a level not seen since the height of the Great Recession.

• There were 242,000 borrowers not in a forbearance program who were 90 days or more delinquent as of January 2021.

• Homeowners are estimated to owe almost $90 billion in deferred principal, interest, taxes and insurance payments.

• Black and Hispanic families are more than twice as likely to report being behind on housing payments than white families.

• Households with incomes below $75,000 are more than twice as likely to be behind than households with incomes above $75,000.

• Mortgage loans insured by the FHA have fared significantly worse than other loan types; their delinquency levels exceed those seen in the last financial crisis.

• 28% of manufactured home residents reported being behind on their housing payments, compared to 12% of single-family home residents and 18% of residents in small- to mid-sized multi-unit buildings.

• Households that appear to be thriving according to the CFPB data may be struggling in real life. Many households rely on nontraditional forms of financing to prevent falling behind on their housing payments, whether that may be credit cards, emergency savings or family and friends. Additionally, their distress may be masked by temporary government assistance, such as stimulus payments.

• One strength of the current housing market is that the average homeowner has built up a considerable amount of equity, and home prices in most parts of the country are still rising. But long-term forbearance can erode equity, and foreclosures can negatively impact neighborhood housing values.

• The CFPB proposal

According to the CFPB, its proposed rule “seeks to ensure that both servicers and borrowers have the tools and time they need to work together to prevent avoidable foreclosures.”

First, the proposed rule would establish a temporary COVID-19 emergency pre-foreclosure review period that would generally prohibit servicers from making the first notice or the filing required by applicable law for any judicial or non-judicial foreclosure process until after December 31, 2021.

Second, it would permit servicers to offer certain streamlined loan modification options made available to borrowers with COVID-19-related hardships.

Finally, it proposes amendments to the early intervention and reasonable diligence obligations to ensure that servicers are communicating timely and accurate information to borrowers about their loss mitigation options during the current crisis.

Given “the urgency of the crisis,” the CFPB is requesting comments be submitted before May 11, 2021.

Sue Johnson is the former executive director of RESPRO, the Real Estate Services Providers Council Inc. She retired in 2015 and is now a strategic alliance consultant.

“The Bureau is not aware of another time when this many mortgage borrowers were in forbearances of such long duration at once, or another time when as many mortgage borrowers were forecast to exit forbearance within a relatively short time frame,” the CFPB said in its proposed rule.
BEST PRACTICES FOR RETURNING SAFELY TO IN-OFFICE WORK

As businesses reopen and people return to in-person work, the question remains how to do so safely. Attorney Rick Grimaldi weighs in on ways to keep returning employees safe.

by Shelby R. King, assistant editor

Nearly half of all American adults have received at least one dose of the COVID-19 vaccine, and many Realtor Associations are itching to get their employees back to in-person work. Nothing can beat the collaboration and innovation opportunities created by face-to-face interaction, and after a year of remote work, many employers are formulating plans for how to get their employees back on site and in person.

The biggest question on Association executives’ minds: How can we do this in a way that keeps everybody safe — including employees, vendors and customers? Rick Grimaldi tackles this and other questions in his book titled, “FLEX: A Leader’s Guide to Staying Nimble and Mastering Transformative Change in the American Workplace.”

“Everybody is eager for things to get back to normal as soon as possible,” Grimaldi said. “The only way to get back to business as usual is by planning ahead now, and taking all the steps necessary to make your workplace as safe as possible for everyone.”
Here are some best practices to keep in mind as your Association office reopens.

First, decide whether some, most or all of your employees will stay remote. If your organization allowed employees to work from home during the pandemic, you and your workforce could be inclined to keep at least some employees remote. After all, some roles are conducive to remote work, and many employees have shown that productivity does not suffer when they work virtually.

Next, decide who will come back, and when. Make a plan to stagger schedules and shifts to help workers come back as safely as possible. Establish a process that can be carried out while providing maximum safety, fairness, and consistency for all.

“Everybody is eager for things to get back to normal as soon as possible,” Grimaldi said. “The only way to get back to business as usual is by planning ahead now, and taking all the steps necessary to make your workplace as safe as possible for everyone.”

“Be sure to communicate the staggering process thoroughly and share with everyone how decisions have been made,” Grimaldi said. “Effective communication helps ensure people know and understand that the process is fair.”

Comply with established safety guidelines to help workers come back safely. As employees return to the workplace, your main objective should be protecting them from COVID-19. To ensure that you are complying with established safety practices, check out government-sanctioned guidelines. Some of these include:

- Provide hand sanitizer
- Encourage frequent handwashing
- Provide masks and other PPE, such as gloves or face shields
- Set workspaces farther apart, if possible
- Screen employees for symptoms
- Tell people not to come in to work if they have any illness
- Stagger shifts/start times/break times
- Divide staff into groups/bubbles and rotating attendance
- Increase cleaning of high-touch points, such as door handles, equipment, etc.
- Use portable HEPA filtration systems and increase the air exchanges in your HVAC system
- Limit capacity in break rooms, conference rooms, restrooms and elevators

“Make sure to fully narrate the safety steps you’re taking,” Grimaldi said. “This lets them know you are serious about protecting everyone.”

Train managers and employees on the new protocols put into place. Grimaldi suggests holding virtual meetings about safety protocols before employees return to work. Use a team approach so that everyone works together to ensure continued safety.

“Once workers are back in the workplace, post plenty of signs reminding them of safety protocols,” Grimaldi said. “Also, make sure employees understand they have a federally protected right to speak up about workplace hazards without fear of retaliation. Supervisors who are knowledgeable about company sanitation processes put employees at ease and instill confidence that the workplace is safe.”

Require employees to stay home if they have COVID symptoms. Tell your workers not to come in if they experience fever or chills, cough, shortness of breath or any other symptoms.

Organize a vaccine committee. Equally as important as providing a safe workplace is ensuring that as many employees are vaccinated as possible. If you haven’t yet done any work in this area, a good first step may be convening a committee to help develop and suggest recommendations for your business. The committee should either be composed of or receive input from human resources, legal, workplace safety and other personnel who are in the best position to develop effective strategies while considering all relevant angles. Education is absolutely critical with respect to vaccine programs, and your committee should prepare materials to share with employees.

“This committee can serve as a point of contact for the company program and assist in implementing the plan development and the rollout,” Grimaldi said. “It can also assist in educating employees about the vaccine rollout and can offer direction on how to sign up for the vaccine.”

Decide whether or not your company will mandate the vaccine. You can choose to require that employees and associated independent contractors get the vaccine as a condition of working...
as long as you honor federal anti-discrimination laws, Grimaldi said. In fact, many employers have been mandating or incentivizing employees to get the flu vaccine for years. However, not many organizations are taking this route when it comes to the COVID-19 vaccine. According to a Fisher Phillips Flash Survey tallying information from 700 employers, only 9% of respondents said they were considering requiring employees to take the vaccine as a condition of employment. If you do decide to make the vaccine mandatory, you must take into consideration those who object for religious or health reasons.

Most employers would prefer to find a way to encourage their associates to get vaccinated. Before implementing any incentive program, consider, at minimum, the Americans with Disabilities Act (ADA), Title VII of the Civil Rights Act, the Health Insurance Portability and Accountability Act (HIPAA), and, depending on the nature of the incentive, the Fair Labor Standards Act (FLSA). You will also need to consider any related state or local laws that may apply in your jurisdiction. To learn more, [CLICK HERE].

Be prepared for some employees to choose not to be vaccinated for health or other reasons. Some of your employees may provide a doctor’s note indicating a health risk of taking the vaccine, such as allergies. In such cases, the employer might need to talk with that employee about what else, if anything, might be done to get back to work safely.

“Not only is this the law, but any good employer will want to do this as a matter of creating good employee relationships,” Grimaldi said. “We should not ever lose sight of the practical insight of all of this!”

Remember that employees have rights under the ADA. Again, to protect yourself from lawsuits, you should always be prepared to engage in the interactive process with medically fragile employees in a good-faith effort to find a reasonable accommodation that will allow the employee to perform the essential job functions. An employee who has a legitimate health or religious objection to getting the vaccine and is the victim of discrimination may have a legal cause of action against the employer.

All that said, some employees may resist returning to work because they do not feel it is safe. This is a tricky subject, Grimaldi notes. But at some point, just feeling unsafe—assuming the employer is doing everything possible to make the workplace safe—will not exempt employees from performing typical, expected job functions.

“No doubt about it, bringing people back safely is a significant challenge,” Grimaldi said. “But it is a challenge you can feel good about facing head on. Your compliance to government recommendations, as well as your transparency, frequent communication, and empathy for what your employees are feeling reminds them that you are doing everything in your power to keep them comfortable and protect them from COVID-19. And in doing so, you’re not just protecting them, you’re also protecting the lives of everyone in your community.”

According to a Fisher Phillips Flash Survey tallying information from 700 employers, only 9% of respondents said they were considering requiring employees to take the vaccine as a condition of employment. If you do decide to make the vaccine mandatory, you must take into consideration those who object for religious or health reasons.
GLOBAL PANDEMIC RESPONSE SUPPORTED WEALTHY INDIVIDUALS

With lower interest rates and more fiscal stimulus, asset prices have surged, driving the world’s UHNW population 2.4% higher over the past 12 months to more than 520,000. The process was seen across North America and Europe, but it was Asia, with 12% growth, that saw the real upswing. The expansion in wealth was not universal, with a fall in the number of UHNW individuals in Latin America, Russia and the Middle East as currency shifts and the pandemic undermined local economies.

ASIA HAS SEEN/WILL SEE THE GREATEST WEALTH ACCUMULATION

The United States is and will remain the world’s dominant wealth hub over ULI’s forecast period, but Asia will see the fastest growth in UHNW individuals over the next five years, at 39% compared with the 27% global average.

By 2025, the ULI report predicts Asia will host 24% of all UHNW individuals, up from 17% a decade earlier. The region is already home to more billionaires than any other (36% of the global total). The Chinese Mainland is the key to this phenomenon, with 246% forecast growth in very wealthy residents in the decade to 2025.
INEQUALITY WILL INCREASE WEALTH ACCUMULATION RISKS
While COVID-19 is viewed as the biggest single risk to future wealth creation, nearly half of ULI’s Attitudes Survey respondents (wealth managers and private bankers) expect the growth in wealth inequality to fuel demand for policies aimed at curbing imbalance—specifically wealth taxes—with new or proposed plans in Argentina, Canada and South Korea likely to be replicated elsewhere.

THE PANDEMIC IS DRIVING UP HOME PRICES
ULI’s assessment of the world’s leading prime residential markets confirms that average price growth accelerated over the past 12 months. While Auckland led the pack with an 18% uptick, reflecting New Zealand’s sure-footed handling of Covid-19, even those markets hard hit by the pandemic are seeing growth. Low mortgage rates, a search for space, privacy and changing commuting patterns are helping push prices higher.

THE PANDEMIC REDUCED GLOBALISM
ULI’s research determined that international travel will remain weak, with 84% of respondents expecting to continue to travel less this year. Where this trend could become more entrenched is the notable drop in demand for international education, which the survey also revealed.

Approximately 11% of home purchases made by UHNW Asian buyers are expected to be driven by educational motives. This means we may see a rise in permanent family relocations to education hubs, with London the main target. Despite a reduced desire to travel, nearly a quarter of UHNW individuals are planning to apply for a second passport or citizenship—a remarkable 50% growth in a year. ULI found that there is a growing tension between rising transparency concerns over citizenship-by-investment schemes and a need to plug gaps in government finances through these schemes.

LONG LIVE THE CITY
ULI research determined that the pandemic has introduced the potential for rebirth in international cities. Expect to hear more about the 15-minute city, green cities, place-making and the coming redevelopment boom. Development land is the third most popular property investment pick this year for UHNW individuals. City leaders in 2021 for wealth, investment, business heft and innovation were London and New York, and for wellbeing: Helsinki and Madrid.

EXPECT MORE PRIVATE INVESTMENT IN PROPERTY
Despite overall property investment volumes falling in 2020, the capital deployed by private investors was still 9% above the 10-year average, far stronger than the 6% fall in the amount committed by institutional investors. This theme will continue through 2021, with a quarter of UHNW individuals planning to invest this year. In addition to development land, residential investments and logistics will lead requirements.

LUXURY INVESTMENTS CONFIRM THE ONGOING SEARCH FOR RETURNS
Despite logistical challenges, investors continued to drive values higher for key collectible assets over the past year—led by handbags (+17%), fine wine (+13%) and classic cars (+6%). However, a shift to private sales as auctions were put on hold saw art market values decline. With disruption to these most global of markets likely to continue through the first half of 2021, it will be the second half of the year when investors will likely see the longer-term direction for investment performance. 

THE PANDEMIC IS DRIVING REAL ESTATE INNOVATION
Technology during the pandemic worked to concentrate wealth. However, ULI confirms that tech disruption is viewed as a key post-pandemic area for investment, driving demand in the still embryonic data centre market and the burgeoning life sciences sector. Spurred by the pandemic, life sciences, tech and advanced data analytics are creating new opportunities for rethinking office space in key markets.
THE COVID-19 PANDEMIC:
AN “ACCELERATOR OF EXISTING TRENDS”

The real estate industry is tackling the challenge of a cyclical downturn juxtaposed with the long-term consequences from the disruption caused by COVID-19, and how the environmental, social and governance (ESG) agenda is becoming increasingly important.

A report by PricewaterhouseCoopers (PwC) and the Urban Land Institute (ULI) highlights a clear global narrative of COVID-19 as an “accelerator of existing trends”—such as digitalization and online shopping—while at the same time hugely reinforcing the real estate industry’s environmental, social, and governance (ESG) agenda. More companies than ever before are putting climate change and decarbonization strategies at the heart of the way they do business as they respond to the pressures of the pandemic.

The industry leaders canvassed for the annual Emerging Trends in Real Estate: Global Outlook report are hopeful of a consumer-spending-led economic recovery feeding through into an uptick in activity in the second half of 2021. But much will depend on the rollout of the vaccine and an easing of lockdown restrictions.

Unprecedented levels of fiscal and monetary stimulus threaten market volatility, and the emergence of stock market bubbles and renewed inflationary pressure in the U.S. and Europe are concerns for real estate leaders. Despite the risk of greater volatility, the loose monetary environment is
keeping interest rates low for the time being and making the yield spread for real estate hugely compelling to investors compared to other asset classes.

Since the start of the second lockdowns in autumn, lenders have adopted a far more cautious approach to real estate compared with equity investors. While banks were generally supportive of business at the outset—invariably at the behest of governments and central banks—lending criteria have become tougher. There is a wide expectation that distressed debt will increase once the government support packages end, although it is considered unlikely to match the levels of distress seen after the global financial crisis.

Given the pressure on occupier markets, the report speaks about “a bifurcation in pricing” between in-favor sectors like logistics that have provided stable income during the pandemic and those sectors that have been hardest hit, such as hospitality and parts of retail. Residential is also in favor, with investors seeing favorable supply-demand dynamics, which make housing a prudent defensive play for the foreseeable future, but the outlook for the office sector is altogether more difficult to predict. The report suggests that the impact of the pandemic on offices might be lower than widely assumed, and employees are expected to eventually want to return to the office albeit in more of a “hybrid” working model than in pre-COVID times. Also, in Asia, not much long-lasting impact is expected given corporate culture and relatively small living spaces in Asia’s major cities, which are expected to lead to a more consistent return to office working.

The overriding theme from interviews conducted for the study is that the industry is looking beyond occupancies and returns, and it is starting to address its wider responsibilities. A growing focus on decarbonization in the real estate industry in the last 12 to 18 months has been driven primarily by providers of finance and the biggest tenants, but also by climate change becoming more tangible in the form of more frequent extreme weather events.

The main takeaways from the interviews point to a daunting amount of complexity in the development, ownership and management of real estate, which makes coming up with an effective strategy difficult even for the largest companies, let alone the execution. Currently there are no common definitions on what “net-zero” means, and whether it only relates to the carbon emissions related to the operation of the building, or also the “embodied carbon” that’s emitted during production and transport of materials and building construction.

The profusion of certifications, standards, targets and terminology creates the potential for “green-washing,” which is defined as giving the appearance of decarbonizing for reasons of brand and to attract capital, while actually focusing on only part of the story. To avoid greenwashing, the alignment of goals and unprecedented collaboration between all stakeholders, including developers, construction companies, investors, tenants and the public sector, is key: “Any certification or net-zero standard that does not put embodied carbon front and center of its thinking risks sending the real estate industry down the wrong path, stifling innovation in the areas where it is truly required, and diverting funding to initiatives that will not be that impactful in reducing carbon emissions,” the report states.

ULI global CEO Ed Walter comments: “However acute the economic impact of the pandemic, the real estate industry recognizes that the long-term impact of climate change will be greater. Few have fully got to grips with the challenge, but skills and innovations are spreading through the industry, and the Urban Land Institute is playing a key role in sharing of knowledge and best practices.”

The overriding theme from interviews conducted for the study is that the industry is looking beyond occupancies and returns, and it is starting to address its wider responsibilities.
The interviews reveal an industry that is alive to the fact that stimulus will need to be repaid, the increasing importance of health and wellbeing and ESG regulations will be tightened. But this comes at considerable cost, and lead-times are significant for innovation to occur and changes to be implemented into supply lines. The vaccine alone will not take away the pain of impending reforms.

Craig Hughes, global real estate leader, PwC, said: “While many eyes are focused on the economic recovery, we should not underestimate the structural impact of this crisis, following the dislocation across many industries and society. It is about more than recession and rebound, as we won’t go back to how it was before. ESG factors are in laser focus including an increased sense of urgency to decarbonise.

“There remains a daunting amount of complexity in the development, ownership and operation of real estate, which makes coming up with an effective strategy vital. Owners, occupiers and all other stakeholders in the real estate value chain will need to work together, if the industry is to play its part in reversing climate change and adapting to a post-pandemic world.”

In a chapter focusing on decarbonization, the report advises a range of responses:

- Assuming around 80% of the buildings standing in 2050 have already been built, making them energy efficient rather than developing new buildings would have a huge impact on meeting net-zero carbon goals.
- Complexity in ownership and management of real estate requires developers, owners, suppliers, advisers, customers, local and national governments and international bodies to collaborate on common goals and strategies.
- A change in valuation methodology to take account of retrofitting costs would force change, and would include modification to industry best practice. Doing so could require changes from the regulatory bodies that govern how valuations and appraisals work in different countries.
- Net zero is fast becoming the most important standard for buildings in terms of climate change and decarbonization.
- Tenant behavior changes to include embodied carbon when assessing net-zero targets will massively reduce the real estate industry’s incentive to develop new buildings.
- Green leases can be used to incentivize tenants to switch to renewable energy sources and reduce their own energy consumption.

While about 28% of the world’s emissions come from building operations and about 11% from construction, 74% of the carbon emitted during a building’s life cycle comes from its construction and demolition, according to the UN and US Energy Information Administration.

Given the proportion of carbon emissions coming from the built environment, regulation of real estate by city, regional and national governments is expected to accelerate. The report cites New York’s Local Law 97, Los Angeles’ Green New Deal, the UK’s energy efficiency standards and Germany’s carbon tax on commercial buildings. In France, new legislation is proposed to make landlords and tenants equally responsible for the energy consumption of a building. In the Asia Pacific region, tougher regulation of real estate in China and Singapore is also expected to follow a recent announcement of net-zero targets. Investors are increasingly conscious of the risk of “stranded assets” that cannot be brought into line with regulations, and for which there will be no buyers or occupiers. This is already starting to show an impact, with the general view that greener buildings are increasingly being seen as more saleable.

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