

# ***Real Estate 2020:*** Building the future

*Insights from PwC's global  
asset management practice*

*April 2016*



# Real Estate 2020: Building the future

*Looking forward to 2020 and beyond, the real estate investment industry will find itself at the centre of rapid economic and social change, which is transforming the built environment.*

## Kees Hage

Partner  
Global Real Estate Leader  
PwC Luxembourg  
kees.hage@lu.pwc.com  
+352 49 48 48 2059

While most of these trends are already evident, there's a natural tendency to underestimate their implications over the next four years and beyond. By 2020, real estate managers will have a broader range of opportunities, with greater risks and new value drivers. As real estate is a business with long development cycles – from planning to construction takes several years – now is the time to plan for these changes.

Already, thousands of people migrate from country to city across Asia, the Middle East, Latin America and Africa on a daily basis, attracted by the new wealth of these economies. By 2020, this migration will be firmly established. The cities will swell – and some entirely new ones will spring up. Meanwhile, the growing emerging markets' middle class and ageing global population are increasing demand for specific types of real estate. Subsectors such as agriculture, education, healthcare and retirement will be far bigger by 2020.

High energy prices, climate change and government regulation are already pushing sustainability up the real estate agenda, but by 2020, their impact will be far greater. Technology is already disrupting real estate economics, but by 2020, it will have reshaped entire sectors. And the real estate community will have taken a greater role in the financial ecosystem, in part moving into the space left by banks.

We believe the new era of real estate investment, to 2020 and beyond, is the beginning of a time of unprecedented opportunity for real estate investors and asset managers, although with greater risk. The global stock of institutional-grade real estate will expand by more than 55% from US\$29 trillion in 2012, to US\$45.3 trillion in 2020, according to our calculations (see full Real Estate 2020 paper). It may then grow further to US\$69 trillion in 2030.

This huge expansion in investable real estate will be greatest in the emerging economies, where economic development will lead to better tenant quality and, in some countries, clearer property rights. And it will play out across housing, commercial real estate and infrastructure. Indeed, as intense competition continues to compress investment yields for core real estate, real estate managers will have every incentive to search for higher yields elsewhere.

On this and the next page, we highlight our six predictions about what this means for real estate managers and the investment community. After that, we describe our view on the likely changes in the landscape, their possible implications and how we believe you should prepare for this fast-changing world.

## Six predictions for 2020 and beyond:

The changing real estate landscape will have substantial implications for the real estate investment community, which we highlight below and describe in the full Real Estate 2020 paper.

1. The global investable real estate universe will expand substantially, leading to a huge expansion in opportunity, especially in emerging economies. World population growth and increasing GDP per capita will propel this expansion. By 2020, investable real estate will have grown by more than 55% compared to 2012, according to PwC forecasts, and then will expand by a similar proportion in the following decade.
2. Fast-growing cities will present a wider range of risk and return opportunities. Cities will present opportunities ranging from low risk/low yield in advanced economy core real estate, to high risk/high reward in emerging economies. The greatest social migration of all time – chiefly in emerging economies – will drive the biggest ever construction surge.



3. Technology innovation and sustainability will be key drivers for value. All buildings will need to have 'sustainability' ratings, while new developments will need to be 'sustainable' in the broadest sense, providing their residents with pleasant places to live. Technology will disrupt real estate economics, making some types of real estate obsolete.
4. Collaborating with governments will become more important. Real estate managers, the investment community and developers will need to partner with government to mitigate risks of schemes that might otherwise be uneconomic. In many emerging economies, governments will take the lead in developing urban real estate and infrastructure.
5. Competition for prime assets will intensify further. New wealth from the emerging economies will intensify competition for prime assets; the investment community will need to think laterally to earn attractive returns. They might have to develop assets in fast-growing but higher risk emerging economies, or specialise in the fast-growing subsectors, such as agriculture, retirement, etc.

6. A broader range of risks will emerge. New risks will emerge. Climate change risk, accelerating behavioural change and political risk will be key.

Looking forward to 2020, it's the real estate managers and investors with the vision to anticipate emerging trends in the medium term and to prepare for them, which will be most successful. The winning managers of 2020 will have already started to shape their responses to some or all of the fast-evolving trends described in this paper.

*This article is an extract from our Real Estate 2020 paper. The full study can be downloaded from: <https://www.pwc.com/gx/en/asset-management/publications/assets/pwc-real-estate-2020-building-the-future.pdf>*







