What’s Next?
Real Estate in the New Economy
What do we know FOR SURE?

It’s a whole new world. Not just a cycle. We must go forward, we can’t go back.

- The *combination* of factors creates a whole new economy, requiring new analysis.
The New Economy

• Globalization
  – Of capital
    • Rise of the rest
  – Instant technology
    • Information
    • Ownership?
  – Of labor
    • New outsourcing
    • World labor pool
Change in all aspects of life

- **Work**—Jobs, Work force, Regional disparities
- **Live**—Housing, Demand, Size
- **Connect**—Technology, Office Space
- **Move**—Infrastructure
- **Renew**—Sustainability Trends
- **Invest**—Capital Markets and Finance
New Demographics

U.S. Age Cohorts

Gen Y: 85 million +
Gen X: 41 million
Boomers: 81 million
Depression/Silent: 40 million

Source: US Census
Where the hell are the jobs?
Social Security: Each Retiree Was Supported by **42** Workers in 1945 & Just **3** Workers in 2009

Supporting Workers per Social Security Beneficiary, 1945 – 2030E

Source: Social Security
Going Forward 2008-2018

- Modest additional labor force participation at younger level, less in 25-44 age group

- + 55—Keep working!

Source: BLS Division of Industry Employment Projections
## Employment Changes 1990-2010

<table>
<thead>
<tr>
<th>U.S. Metro</th>
<th>Manufacturing 1990</th>
<th>Manufacturing 2010</th>
<th>% Change</th>
<th>Professional and Business Services 1990</th>
<th>Professional and Business Services 2010</th>
<th>% Change</th>
<th>Education and Health Services 1990</th>
<th>Education and Health Services 2010</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESEARCH TRI.</td>
<td>76.9</td>
<td>62.1</td>
<td>-19%</td>
<td>62.4</td>
<td>121.4</td>
<td>95%</td>
<td>51.6</td>
<td>118.5</td>
<td>130%</td>
</tr>
<tr>
<td>SAN DIEGO</td>
<td>123.4</td>
<td>90.7</td>
<td>-26%</td>
<td>124.1</td>
<td>198.8</td>
<td>60%</td>
<td>84.1</td>
<td>147.4</td>
<td>75%</td>
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<tr>
<td>PHILADELPHIA</td>
<td>246.9</td>
<td>132.3</td>
<td>-46%</td>
<td>213.6</td>
<td>288.1</td>
<td>35%</td>
<td>278.3</td>
<td>422.7</td>
<td>52%</td>
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<tr>
<td>BOSTON</td>
<td>205.8</td>
<td>92</td>
<td>-55%</td>
<td>226.1</td>
<td>296.1</td>
<td>31%</td>
<td>267.2</td>
<td>378.5</td>
<td>42%</td>
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<tr>
<td>RICHMOND</td>
<td>61.7</td>
<td>32.9</td>
<td>-47%</td>
<td>66</td>
<td>92.8</td>
<td>41%</td>
<td>41.6</td>
<td>85</td>
<td>104%</td>
</tr>
<tr>
<td>WASHINGTON</td>
<td>50.8</td>
<td>35.2</td>
<td>-31%</td>
<td>289.8</td>
<td>557.8</td>
<td>92%</td>
<td>152.7</td>
<td>280.6</td>
<td>84%</td>
</tr>
<tr>
<td>DENVER</td>
<td>84.8</td>
<td>59</td>
<td>-30%</td>
<td>129.5</td>
<td>202.6</td>
<td>56%</td>
<td>72</td>
<td>143.9</td>
<td>100%</td>
</tr>
<tr>
<td>BALTIMORE</td>
<td>128.5</td>
<td>59.5</td>
<td>-54%</td>
<td>123.1</td>
<td>191.4</td>
<td>55%</td>
<td>145.8</td>
<td>244.6</td>
<td>68%</td>
</tr>
<tr>
<td>SAN FRAN</td>
<td>170.5</td>
<td>113.4</td>
<td>-33%</td>
<td>275.7</td>
<td>339.8</td>
<td>23%</td>
<td>173.7</td>
<td>235.5</td>
<td>36%</td>
</tr>
<tr>
<td>PITTSBURGH</td>
<td>130.6</td>
<td>85.5</td>
<td>-35%</td>
<td>126.6</td>
<td>155.6</td>
<td>23%</td>
<td>160.2</td>
<td>239.8</td>
<td>50%</td>
</tr>
<tr>
<td>USA</td>
<td>17695</td>
<td>11743</td>
<td>-34%</td>
<td>10848</td>
<td>16991</td>
<td>57%</td>
<td>10984</td>
<td>19838</td>
<td>81%</td>
</tr>
</tbody>
</table>

Number of U.S. Job Openings Due to Growth and Replacement Needs, by Major Occupational Group, 2008–2018

- Professional and Related: 11,923
- Service: 11,718
- Office and Administrative Support: 7,255
- Sales and Related: 5,713
- Management, Business, and Financial: 5,035
- Transportation and Material Moving: 2,857
- Construction and Extraction: 2,396
- Production: 2,156
- Installation, Maintenance, and Repair: 1,586
- Farming, Fishing, and Forestry: 291

Source: BLS Division of Occupational Outlook.
Young Adult Degree Attainment

Ages 25-34

MA (49%)

MN, ND, CT, CO, NY, NJ, MD, IL (42%)

UT, MT, MI, NC, GA, CA, FL (34%)

AZ, SC, TX, TN (29%)

WVA, NV (24%)

Canada (55%)

Japan (54%)

Korea (53%)

US (39%)

Mexico (19%)

Source: Lumina Foundation
New Realities

World Increase in University Attendance: 1990-2007

Competition Heats Up

- 150 million university attendees in 2007, worldwide, 70 million in Asia
- New universities being built, fierce market for top talent
- Technology resets the deck
- Hollowing-out of middle

Source: Chronicle of Higher Education
World of R&D 2010
Size of circle reflects the relative amount of annual R&D spending by the country noted.
Where Will Jobs Come From?

• Manufacturing continues decline, with some CAD bright spots
• Dramatic rise in “eds and meds”
• Anchor institutions
• Need: capital, business climate, college
<table>
<thead>
<tr>
<th>Good Things</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Jobs will continue to cluster around eds and med</td>
<td>• We MUST ramp up education/training with an urgency</td>
</tr>
<tr>
<td>• Jobs will cluster around places with a better educated work force</td>
<td>• Funding for r&amp;d needs to increase</td>
</tr>
<tr>
<td>• Most growth is urban</td>
<td>• Reduce barriers sensibly</td>
</tr>
<tr>
<td>• America is still wildly entrepreneurial and leads in venture capital</td>
<td>• Balance sustainable growth with budget cuts</td>
</tr>
</tbody>
</table>
What and where do you call home?
Apartment Living on the Rise

Falling Homeownership Rates Reflect a Sharp Turnaround in Owner and Renter Household Growth

Change in Households (Millions) vs. Homeownership Rate (Percent)

Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.
Over 4.3 million people turning 22 through 2017
Housing Outlook

- Smaller homes
- More multi-generational
- More convenient
- Transit Linked
- Housing Demand
- Increased Rental

“When I was your age, I was an adult.”
Small is Beautiful Decade?

- Attached?
- Starter homes?
- Little boxes?

Average Square Feet of Floor Area in New Single-Family Houses
Completed
Source: Census and NAHB
“O.K., folks, let’s move along. I’m sure you’ve all seen someone qualify for a loan before.”
Housing Trends

• Less homeownership
• Less mobility
• More multi-generational
• More energy efficient, smaller
• Closer to transit
• Mixed-use
Of what value is proximity?
Whose Office Is It?

- Smaller space/employee
- More collaboration
- “Fun” shops
- Near transit
- In cities, e.g. Google, Facebook
- *Are they working??*
- *Where is the office??*
Changes in Space/Worker?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>New York</th>
<th>San Francisco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current level SF/job</td>
<td>116</td>
<td>265</td>
<td>242</td>
</tr>
<tr>
<td>Current vacancy</td>
<td>17%</td>
<td>9%</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Scenario 1: Reduce 10 sf/job</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New level of sf/job</td>
<td>106</td>
<td>255</td>
<td>232</td>
</tr>
<tr>
<td>New vacancy</td>
<td>24%</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Scenario 2: Reduce by 20 sf/job</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New level of sf/job</td>
<td>96</td>
<td>245</td>
<td>222</td>
</tr>
<tr>
<td>New vacancy</td>
<td>31%</td>
<td>16%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: BLS, CBRE-EA RREEF Research, as of Q1, 2011
All About Choice

• Choice is expanded
  – For employers
  – Investors
  – Workers
  – Leaders

• “Mass customization”

• What do I need?

• What do I want?

• Where can I get it?

• What does it cost?
New face of retail

- Internet sales
- Cut out the middle
- “Experience” retail
- Food still strong
- Services rise
Focus: Seattle

Very strong metro area

– 12th largest GMP in country
– More than $210 billion in 2010
– Very diverse economy, array of large, older industrial companies and start-ups
Focus: Seattle.....What's Next?

- Increased competition from Asia
- New port challenge as Panama Canal opens
- Increasing immigration, diversity
- Infrastructure challenges
- Speed of change
Opportunity Areas

- Come Together as a Region
- Education, education, education
- Infrastructure
- Innovation
- Invest
- LEADERSHIP
“Sir, the following paradigm shifts occurred while you were out.”
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