

# 2017 Commercial Real Estate Outlook

## Developers, builders, and investors are cautiously optimistic that the industry can continue to grow

The real estate industry is increasingly influenced by rapid technological advancements and significant demographic shifts, which include growing urbanization, longevity of Baby Boomers, and differentiated lifestyle patterns of Millennials. In addition, macroeconomic and regulatory developments continue to impact profitability. How can companies gain competitive advantage and drive top- and bottom-line growth? Here are some trends to pay attention to in 2017.

**Homebuilders**

**The demand-supply dichotomy will continue**

*Neutral to positive*

Demand-supply mismatch to continue due to labor shortage and permit-issuance delays.

Home prices, sales, and mortgages likely to grow at a slower pace with higher focus on rental homes.

Homebuilders' financial performance may be under pressure.

**Private Equity Real Estate (PERE)**

**Focus on niche RE sectors may ease the pressure on returns**

*Neutral to negative*

Fundraising to decline as managers focus on deploying existing funds; niche sectors may alleviate pressure on returns.

Managers will continue to face increased competition and difficulty in finding attractive investments.

**Engineering & Construction (E&C)**

**Improved construction spending alongside financial performance headwinds**

*Neutral to negative*

Non-residential construction spending and commodity prices likely to grow at a slow pace.

Architectural billings and backlogs suggest slow construction activity.

E&C companies will face financial headwinds.

**Real Estate Investment Trusts (REITs)**

**Favorable performance will continue amid increased caution**

*Neutral to positive*

Fundamentals will be marked by positive net absorptions.

Transactions and pricing may slow down; financing is likely to be challenging.

REITs are likely to maintain positive earnings growth; portfolio repositioning to continue.

### 2017 key enablers for growth

- Internet of Things**  
Identify appropriate applications, integrate with existing systems, and invest in data analytics capabilities.
- Sustainability/health and wellness**  
Consider design elements that promote health and wellness, collaborate with tenants, invest in obtaining LEED and WELL certifications.
- Demographic data and predictive analytics**  
Use appropriate tools, partner with specialized consultants and startups, and upskill existing talent.
- Cybersecurity**  
Elevate cyber risk as a strategic issue, develop policies and frameworks, spread awareness, and invest in implementation.
- 3D printing**  
Reposition existing properties, invest in firms building 3D printers, and partner with universities for research and development efforts.
- Cloud and mobile technologies**  
Assess suitable applications, identify key functions and processes, improve integration, and address security issues.
- Enhanced productivity outsourcing**  
Identify activities for outsourcing and factor in regulatory, scalability, and cost aspects.



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