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BIG TRENDS
AFFECTING REAL ESTATE VALUES

THE FIVE POINT

JohnWilhoit.com

Volume 1 2021

WIN Publishing – The Five Point Reports

Each report delivers five or more methods, measures, or processes intended to impact your rental property assets positively. The Five-Point may validate your thinking, provide new knowledge, and sometimes offer further information towards a "course correction" to advance important decisions.

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Cover Design by CALI Designs, Atlanta GA

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Summary

Big trends affecting real estate values represent areas in constant motion:

- Technology (Utility Costs, Construction Design/Architecture, Mobility)
- Demographics (Smaller families, SRO, Seniors housing, Relocation)
- Changes to Urban Density
- Housing Demand (Lifetime Renters, Economic Knowledge)
- Work-From-Home

What's the next big trend affecting your real estate assets? Know the trends in areas where you invest and intend to invest. Learning about trends affecting real estate assets requires study and diligence. There is no replacement for getting this right.

For years we have devoted billions of dollars to creating transportation hubs between urban areas to support commerce. For a season, nothing is moving – people and products are staying local. Is this a permanent state? How will future trends affect your real estate investments?

Introduction

Change is constant in real estate, but often, it seems like a slow-moving mountain; you know it's moving, but you can't see it moving in real-time. Property built just twenty years ago with fully functioning hard-wired internet in every room were all the rage. Five years later, wireless knocked this hi-tech to the wayside in just under a minute. In reality, the newest connectivity had almost overnight advancement from wired to wireless, the from 3G to 4G to 5G, now 10.

Short-term leases (6 to 12 months in duration) are practically mobile immediately; they can go where the action is – be it for amenities or jobs. Staying in-the-know allows you, as a property owner, to prepare for change and stay ahead of competitors. It's not always a big thing that's required to "stay current." It could be something as simple as changing all lighting to LED or replacing appliances, one unit at a time, from white to stainless steel. Small things, but things that keep residents and retain revenue.

Think of this shortlist as a springboard to keeping your eyes open about changes around your assets. Staying in-the-know will keep your asset competitive and revenue flowing while others fall behind.

TECHNOLOGY

If we didn't need to eat or buy soap, would any of us ever leave home again?

Significant trends are affecting real estate values every day, but none more than advances in technology. In ten years, I imagine a smart home will make our "advances" from the early 2000s seem like child's play. Remember when cars had transmissions (they still do, but probably not much longer). What's cute and hot-off-the-presses?

Things like programmable thermostats and large chunky solar panels will be integrated into new construction techniques making these once-magical devices streamlined and automatically part of the seamless landscape of modern design and energy efficiency.

Still, first is the ability of tech devices to reduce energy consumption. We are using more wind and solar than ever before as both of these resources become a more substantial part of the energy grid footprint delivering electricity to urban areas. Can you imagine the day we have solar paint where every building this collecting solar energy for its use? We're not quite there, but wind and solar produce as much as 15 percent of the power grid in some states. And that number is only expected to rise.

We see fuel prices decreasing concurrent with the increase in the use of wind and solar. We also see a decline in coal- for coal- for producing electricity. Those utility costs have a positive impact on real estate values. Every time you can reduce costs in the operation of a building, there is the possibility of increasing value based on that efficiency. Technology is impacting utility costs, which means it's affecting real estate values.

Advances in construction design are also affecting values. There are so many examples we have positive impacts on construction design that save costs and increase efficiency. The simple one is that at one point, we use galvanized pipe for plumbing, then copper and then PVC, and now PEX. Every time this path changes, there is a reduction in cost and an increase in energy efficiency.

Multiply of these small changes times 50 events in construction design, and it's easy to picture the enormous impact of construction design improvements on real estate values. One overt result is longevity because we're better at construction design now; buildings last longer. And buildings have a higher potential value based on this longer useful life.

Another area impacted by technology is architecture. Today green buildings and LEED buildings (Leadership in Energy and Environmental Design), while costs more to construct, have operational advantages because they have lower operating costs. Buildings that offer both components - Green and Tech - have significantly more value based on this convergence, lower operating costs, and the real and perceived value of LEED plus built-in technological advances.

The tech improvements come in all shapes and sizes: faster elevators, no-flow plumbing fixtures, and low maintenance landscaping. Architects bring conservation efficiencies in technology into new construction, creating a competitive advantage for a building.

The third area in technology is mobility. I'm not going to say driver-less cars. I'm suggesting that mobility or autonomous travel will have a severe impact on real estate values, and we don't quite know how that's going to play out yet. There are so many examples of positives and negatives. I'll use Los Angeles, my hometown, as an example. In the last ten years, we can see a direct impact on expanding the subway system to increase the values of properties that are close to subway stations. That's not uncommon, but it is unusual for the metropolis known as Los Angeles because it's been missing for so long.

> *Greater mobility will have a direct and significant impact on property values.*

We can have product distribution centers in non-urban areas because there's no significant increase in costs to transport those goods into the urban core. If we can move distribution centers, there is no material costs basis because the distribution centers directly access significant cities – even if 100 miles away. We don't know the answer to that yet. However, we know that mobile technology is racing to the point where General Motors announced in 2019, and they will have their fleet taxi service or autonomous taxi service.

If we don't need distribution centers and warehouses or industrial space close to our cities or in the middle of our cities, we have created a new inventory of available land! If we can move it even 10 or 20 miles away because of easy access created by mobility or autonomous travel- to and from those areas- what's going to happen with all that newfound dirt (land area) inside these significant cities? This land will not decrease in value; if anything, the property will increase in value as developers determine its highest and best use other than park trucks next to trailers hauling human-made stuff around.

The most prominent trends are; utility costs, construction design, the impact of architecture, and mobility to recap technology.

DEMOGRAPHICS

The next topic is demographics. There have been significant changes in demographics. The recession of the early 2000s has had an impact on demographic changes. We have today smaller family sizes as part of the effects of the Great Recession.

The U.S. also has an aging population. Twenty years ago, there were not very many companies focused on housing just for seniors. Now we have real estate investment trusts that invest exclusively in senior's houses. Demographics is having an impact directly on how people invest in real estate.

Developers are also are creating smaller living spaces. This trend of more modest living quarters is referred to in the multifamily market as SRO, or single resident occupancy. That lends itself to tie in with the smaller family size. The U.S. also has more single-person households, meaning we need living spaces that house just a single person in urban and suburban markets. SRO space is functional space; just because it's smaller doesn't mean it's any less efficient in usage or livability.

Another demographic shift will be by a large swath of our population permanently living out their days in the city where they were born. From the 1950s through to 2000, we were a mobile country with millions of people departing the rust belt for the sunbelt, people leaving Chicago for Atlanta or Detroit for Orlando – not so much anymore. There are those unwilling to relocate. We will see less mobility, not more, into the next decade.

In the 2000s and before, you could pretty much count on X-million of people moving from one metro to another, and you could track them by U-Haul trips, follow them by housing sales, and could track them by job growth in certain cities and job losses and others. Some of those metrics are still true, but the bottom line is that people are less willing to relocate than they were in the past, which means they're staying put. What comes with this change is more winners and losers in terms of real estate values and lost economic opportunities for the less mobile.

CHANGES TO URBAN DENSITY

COVID-19 will change everything; from where people work, seek work, live, educate, medical care, how we exercise, buying groceries, batteries, pets, and cars. The landscape of urban density is going to be unrecognizable.

Shopping and entertainment models are now in a thousand little pieces. Will they be rebuilt for a new generation that encompasses this pandemic and the next – looking to avoid the unavoidable? Is the human condition a mirror of people making mistakes, devoting time, energy, and resources to build-back to where we were? No.

We can't go back. Too much has changed. That doesn't mean people won't move from one house to another; they are, however, less likely to move from one metropolitan to another. That's one reason why we will continue to see shortages in workers in one part of the country; because people are no longer willing to move to another place to have opportunities where they presently reside. When a person has a good job and can progress within that company or move to another company within the same market, they are less willing to move from one metro to another to seek an opportunity.

Will Covid-19 change this? Yes. How? It depends on how quickly we get un-stuck from the notion that home is safe and everywhere else is dangerous. That demographic of people unwilling to move for any reason is a trend affecting real estate values because people are staying put, which is different from what it was a decade ago or indeed two decades ago.

Another area affecting demographics is urban density. The best example I have is what's occurred in the last few years in San Francisco and Chicago. More than 20,000 people have moved into the city within two miles of the city hall in both cities. Will this trend continue? Will jobs come back into cities post-COVID-19? It's too soon to tell.

If people do flock back into the central city, does that mean suburbs will be abandoned? The answer is no. Suburbs will evolve further towards becoming their own smaller central city if possible. Some will die out while others are flush and become mini-power centers in their region.

A good example is Denver. Whereas Denver is a principal metropolitan Fort Collins and Boulder, although they're within an hour of Denver, there are not many people commuting into Denver. From those enclaves, because those places have their office buildings, they have their job centers; they have their shopping and neighborhoods, medical services, schools. They are self-sufficient. Although they are attached to Denver (Fort Collins and Boulder), not many people commute to Denver for jobs because there are jobs in Fort Collins and Boulder.

The same is true for other major metropolitan's. Urban density, although it's increasing in the major metropolitan, has not caused the suburbs to suffer as they would have in the past because of people moving exclusively into the significant metro for jobs and away from the suburbs. They now have the option of a central-city in the suburbs. And that's made a difference in terms of values for those cities.

There is undoubtedly a higher concentration of jobs in major markets, but that hasn't excluded suburbs from creating their sense of place and having job centers without the need for a significant commute away from the suburb into a nearby major metro. When I say substantial commute, I mean something more than 30 minutes.

HOUSING DEMAND

Housing is like any other product in this respect: its prices are affected by supply and demand. Today you can still buy a house in rural Ohio for $45,000. Although that's unusual, you can't say the same for Metro of Phoenix, Arizona, right? Demand has a direct impact on value. That's no new news. What's changed is demand based on proximity to job centers and the type of housing.

Proximity to San Francisco now includes Reno, Nevada. That's a new Covid-19 twist. This is a new paradigm that will affect our entire life and how people form communities going forward. If work and school are online, the option to live anywhere is now possible. Given that option (if it ends up being true), where will people decide to live? If nothing is keeping you in Tennessee or Kansas...where do you want to go? More importantly, what's the driver?

When I say the type of housing, I'm referring to the own-versus-rent decision that people make. Fewer people own homes now than in the last decade. That number may inch up slightly as family formation increases, as younger people start forming their own families. The wall to climb over remains housing costs.

When prices for single-family hit $200 a square foot, I thought that was just crazy. That was about two years before they went to $300 a square foot. This is a barrier to entry, along with the fact that people now know that home prices go up, but they also come down.

Knowing that home valuations are a two-way street makes some less interested in homeownership and perfectly fine with becoming lifetime renters. Lifetime renters are out of the home buying market. That is a change in the demand for owner-occupied housing that we haven't seen before at this sustained level.

Homeownership rates hover between 66-68%. Ratcheting back up to 70 percent is unlikely given demand dynamics and prices compared to current family incomes. The demand for housing has changed. And just like all politics is local, so too is housing demand and pricing.

WORK-FROM-HOME

Work-from-home (WFH) before Coronavirus was a trend; now, it's a way of life. Fully 4 in 10 people are working from home full time presently. Four in ten restaurants are expected to close for good. Children of all ages, and young adults, are having to face a new way to learn that was considered "novel" just a decade ago. The larger picture is the unknown of how WFH will tear at society's fabric and for how long? The costs in human capital, relationships, and just plain lost work opportunities are immeasurable. As much as we may all miss sports, the broader societal issues remain around vast swaths of our society being unemployed, children without routine, the coming wave of foreclosures and evictions, retail stores closing by the thousands (and increasing unemployment concurrently).

I feel more for the nine-year-old missing out on soccer with friends who are both social and provide needed exercise than I, for the pro soccer player missing a season. I feel more for the next layer of obese children whose health will be forever affected based on a month of gaming versus gaming on a field of play (any field of play).

The added stress from a required WFH environment, unplanned, not sustainable, and without end, is a threat to our collective mental health as much as the pandemic. This is not a political statement but an observation about a clear path forward or towards a remedy as of this writing.

WFH spaces were already evolving for renters and homeowners alike. WFH space was beginning, finally, to experience intentional design, a design that encompassed the area available into something that made the space comfortable for extended ours. Throwing us all into the fire at a moment's notice will require a collective resiliency that I pray we can abide for all of our sake.

For more on WFH and Multifamily Design, please read my article here.

Concluding Remarks

Know the trends in areas where you invest and intend to invest. There are no replacements for getting this right. Learning about trends affecting real estate assets requires study and diligence. The one thing we cannot do is "assume" or listen to what "they say." They are not investing hard dollars – you are. And they are watching you make mistakes and act on inaccurate information without trying to assist or suggest course corrections in your favor.

A kind helping hand is seldom around when you need it. You have to build out your own trusted network and be willing to give as much or more than you get to make inroads and create some real grit from experience. Investment mistakes are still possible, but less so when you have a wide-net of people that can assist you in attacking the real estate problem in front of you.

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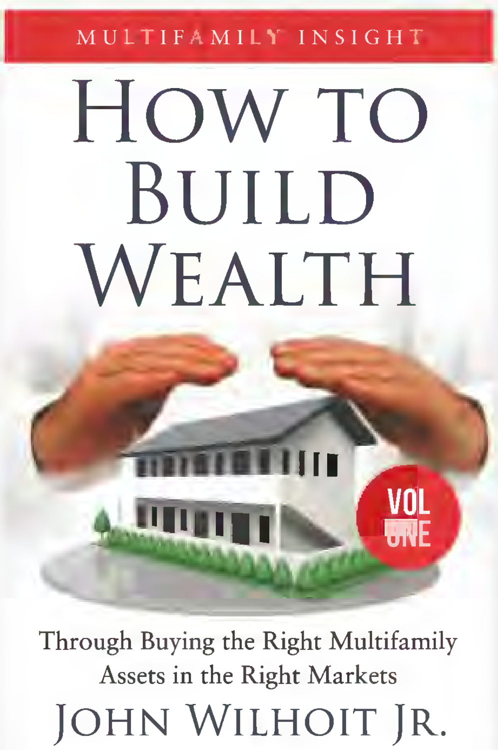

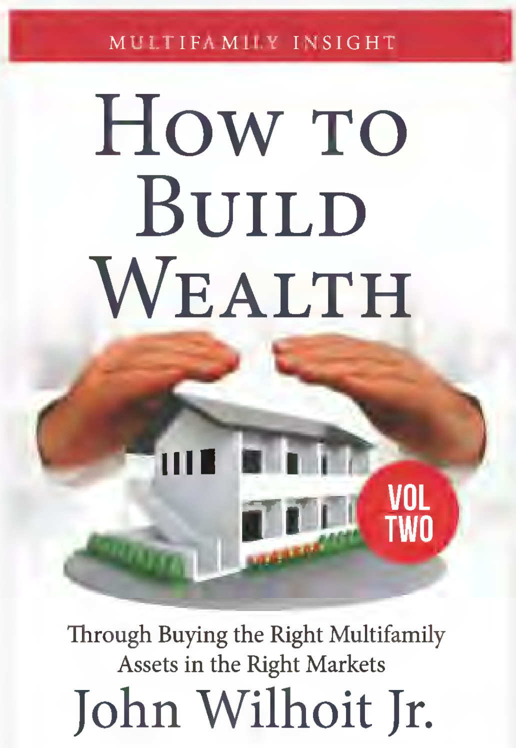

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